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Canada, Royal commission on banking and finance
Hearings v. 48. Brief v. 424. 1962.

1964



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Royal Commission on Banking and Finance

The Dominion Mortgage and Investments Assoc.
The National Housebuilders' Assoc.
Canadian Construction Assoc.

Hearings
held at

OTTAWA

Vol.

48

Date.

16th OCT 1962



Official Reporters
F. J. Nethercut and R. J. Young
Toronto, Ont.



Nethercut & Young
Toronto, Ontario

- 5834 -

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
Ontario I N D E X day,
October 16th, 1962.

1. The Dominion Mortgage and Investments Association - 5835

THE COMMISSION

2. The National House Builders Association Dana Harris Porter - 5924

Chief Justice of Ontario,
Toronto, Ontario - Chairman

3. Canadian Construction Mr. Association Brown, M.B.E. - 5978

Investment Dealer

Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.

Banker

Toronto, Ontario

Mr. Gordon L. Harrold

Agriculturalist

Calgary, Alberta

Mr. Paul H. Leman

Corporation Executive

Montreal, Quebec

Mr. John C. MacKean

Corporation Executive

Halifax, Nova Scotia

Dr. W.A. Mackintosh

Vice-Chancellor

Queen's University

Kingston, Ontario

Mr. H.A. Hampson

- Secretary

Mr. Gilles Mercure

- Joint Secretary



ROYAL COMMISSION ON BANKING
AND FINANCE

Hearings held at Ottawa,
Ontario, on Tuesday,
October 16th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

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Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



Ottawa, Ontario
Tuesday,
October 16th, 1962

--- At 9.15 the hearing commenced.

SUBMISSION OF
THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION

APPEARANCES

| | | |
|---------------------|---|---|
| Mr. H.P. Connor | - | President, Eastern Canada Savings and Loan Company |
| Mr. G.C. Norsworthy | - | Manager, Lambton Loan and Investment Company |
| Mr. B. Lechartier | - | General Manager, Credit Foncier Franco- Canadien |
| Mr. C.F. Mackenzie | - | Vice-President & General Manager, Canada Permanent Mortgage Corporation |
| Mr. J. Allyn Taylor | - | Association President & President & General Manager, Huron & Erie Mortgage Corporation |
| Mr. J.E. Fortin | - | Association Secretary |
| Mr. W.F. McIlroy | - | Association Assistant |

COMMISSIONER MACKINTOSH: Gentlemen, if you
will please come to order. The Chairman is delayed;
he will be here later.

We have representatives this morning from
the Dominion Mortgage and Investments Association on
behalf of their member loan companies. I understand,
Mr. Taylor, you are representing them. Perhaps you



1 would introduce your associates, and then we would be
2 pleased to hear any preliminary statement.

3 MR. TAYLOR: Thank you, Dr. Mackintosh, and
4 gentlemen. We appreciate the opportunity of presenting
5 this brief, which has been prepared and has been in
6 your hands for some time. We appreciate the opportunity
7 of coming here to answer any questions that may be put
8 to us.

9 I would like to introduce the gentlemen
10 who are appearing with me. As they say when introducing
11 the head table, if you have any applause please hold
12 it until all the members are introduced. That may or
13 may not be in order, Mr. Chairman.

14 COMMISSIONER MACKINTOSH: We rarely have been
15 bothered by applause.

16 MR. TAYLOR: On my extreme right is Mr. Connor,
17 President, Eastern Canada Savings and Loan Company;
18 next to him is Mr. Norsworthy, Manager, Lambton Loan
19 and Investment Company; Mr. Lechartier, General Manager,
20 Credit Foncier Franco-Canadian; Mr. Mackenzie, Vice-
21 President and General Manager, Canada Permanent Mortgage
22 Corporation; on my right is Mr. Fortin, Secretary,
23 Dominion Mortgage and Investments Association; and
24 Mr. McIlroy, Assistant Secretary of Dominion Mortgage
25 and Investments Association. This is our group, sir.

26 I presume it would be quite untoward for me
27 to make any speech at this time this morning. I will
28 simply be prepared to direct questions to my colleagues
29 in the hope that they can be answered to your satisfaction.

30 COMMISSIONER MACKINTOSH: Thank you, Mr. Taylor.



1 Our questions, which will be put to the group, will
2 be directed to Mr. Taylor.

3 COMMISSIONER GIBSON: May I start with
4 a few general questions, Mr. Chairman. Like the other
5 Commissioners, I read this brief with much interest.
6 One of the broad questions that occurred to me was,
7 why have not the loan companies grown more? Their
8 assets, which are shown on pages 56 and 57, show a
9 somewhat slower rate of growth than most other
10 financial institutions in this period.

11 If you look at their share of the mortgage
12 business, which is shown in paragraph 58, at the bottom
13 of page 24, you will note that their share of the mort-
14 gage business has declined quite strikingly in relation
15 to insurance companies, and to some extent in relation
16 to trust companies.

17 Do you care to make any comment on this
18 general phenomenon.

19 MR. TAYLOR: Yes, Mr. Gibson. Gentlemen,
20 as the questions are received I intend to direct
21 them in large measure to Mr. Fortin, simply because
22 of the great respect we all have for his knowledge
23 of this whole field. I don't think there is anyone in
24 Canada more knowledgeable in the field of mortgage
25 lending than is Mr. Fortin. We believe that the purposes
26 of the Commission can be best served by asking Mr.
27 Fortin to answer many of these questions.

28 MR. FORTIN: Mr. Gibson, you have noted
29 in the historical summary that loan companies grew,
30 and there became quite a number of them, and then they



1 began to disappear. Essentially, the reason for their
2 disappearance was competition in the mortgage field.

3 In the early years the more important of
4 mortgage lenders was the loan companies, they having
5 started as building and loan societies. Gradually
6 the trust companies, for one group, began to take more
7 interest in the mortgage business, and more latterly
8 the life insurance companies began to be more active
9 in the mortgage business.

10 The consequence was that in or around the
11 year 1922 a great many of the smaller loan companies
12 found that to continue to do business they had to
13 seek and obtain trust company powers. So, those
14 particular companies are now reflected in the trust
15 company group.

16 Of course, the pattern of lending has changed
17 in more recent years through the building and effect
18 of the Dominion Housing Act of 1935, in which the
19 loan companies began to participate to a small degree.
20 With the National Housing Act coming on, you will
21 recall that a great deal of the mortgage business
22 for housing purposes -- that is new houses -- has been
23 carried by the energy which the loan companies have
24 shown in that field.

25 Still again, with the advent of the banks
26 in 1954 into the new housing financing field, and
27 once again with the large number of smaller loan companies,
28 and many of them as provincial companies -- these are
29 not reflected in the tables.

30 The mortgage business is a hard business, both
to obtain money and lend it out. So that apart from what

In the early years the mortgage loan companies, they having started as building and loan societies. Gradually the first companies, for one group, began to take more interest in the mortgage business, and more latterly the life insurance companies began to be more active in the mortgage business. The consequence was that in or around the year 1920 a great many of the earlier loan companies found that to continue to do business they had to reorganise their companies and now reflected in the lines

Of course, the pattern of lending has changed in more recent years through the building and effort of the Dominion Housing Act of 1927, in which the loan companies began to participate to a small degree. With the national housing act coming on, you will recall that a great deal of the mortgage business for housing purposes -- that is new houses -- has been carried by the energy which the loan companies have shown in that field.

Still again, with the advent of the banks in 1924 into the new housing financing field, and once again with the large number of smaller loan companies and many of them as provincial corporations -- these are not reflected in the tables.

The mortgage business is a hard business, both to obtain money and lend it out. So that apart from what



1 you might call three large companies and a couple of
2 middle-sized ones, as we knew them in the old days, they
3 have disappeared.

4 That is the picture, Mr. Chairman.

5 COMMISSIONER GIBSON: In other words, there
6 is no special advantage in being a loan company. You
7 suggest that over the years a number of them have
8 amalgamated with other people, and so on. Even in
9 the present situation, you have some of the larger
10 ones with close affiliations with trust companies.
11 This is the situation, is it not?

12 MR. FORTIN: Yes.

13 COMMISSIONER GIBSON: Is it proper to regard
14 the loan companies as a sort of separate division,
15 or should you think of the loan and trust companies
16 as a group?

17 MR. FORTIN: In that connection, Mr. Chairman,
18 the essential difference between a loan company and
19 a trust company is perhaps twofold: You could describe
20 a trust company as a loan company with trust company
21 powers.

22 COMMISSIONER GIBSON: That is the main
23 difference, is it? The trust company does trust
24 business, in addition to loan business?

25 MR. FORTIN: There is another difference:
26 that is, the loan company seeks to put all of its
27 money into mortgage loans, except that required for
28 liquidity purposes, and as a standby pending being
29 able to go into the mortgage business.

30 In other words, a loan company does not,

... which is a large company and a number of
... as we know them in the old days, they
... have disappeared.

That is the list of Mr. Chairman.

is an actual company in being a loan company. You
... that over the years a number of them have
... associated with other people, and so on. Even in
... the present situation, you have some of the larger
... ones with close relationships with other companies.

That is the situation, is it not?

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the loan companies as a sort of separate division,

or would you think of the loan and trust companies

as a group?

Mr. Chairman: In that connection, Mr. Chairman,

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a trust company is perhaps twofold. You could describe

a trust company as a loan company with trust company

... That is the main

difference, is it? The trust company does trust

business, in addition to loan business.

Mr. Chairman: There is another difference:

That is, the loan company seeks to put all of its

money into mortgage loans, except when required for

liquidity purposes, and as a primary position being

able to go into the mortgage business

In other words, a loan company does not,



1 as a trust company or as a life company, seek to
2 choose as between the securities market and the mortgage
3 market. The loan company seeks to put as much as
4 possible of its money in mortgage loans, and that is
5 why at the end of 1960 they had about 70 to 79 per
6 cent of their assets in mortgage loans; the trust
7 companies, on the other hand had, shall we say, about
8 45 per cent.

9 COMMISSIONER GIBSON: This is of their own
10 funds?

11 MR. FORTIN: Of their company and guaranteed
12 funds, yes.

13 COMMISSIONER GIBSON: Is there any special
14 advantage in being a loan company, and in acting that
15 way.

16 MR. FORTIN: Not particularly.

17 COMMISSIONER GIBSON: A trust company
18 presumably could do the same thing with its funds,
19 if it chose to?

20 MR. FORTIN: Except that there are differences
21 in the ease with which you can obtain your money. There
22 is, for example, the view that it is easier to obtain
23 your money by way of sale of debentures as opposed
24 to taking money by way of guaranteed investment
25 certificates. The type of security is different.
26 One is easier to sell, according to some views; other
27 people say they are just the same.

28 COMMISSIONER GIBSON: Essentially, there
29 is not too much difference, is there?

30 MR. FORTIN: Perhaps some of the loan



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as a trust company or as a life company, and to
choose as between the securities market and the mortgage
market. The loan company seems to put as much as
possible of the money in mortgage loans, and that is
why at the end of 1960 they had about 70 to 75 per
cent of their assets in mortgage loans; the trust
companies, on the other hand, had, shall we say, about
45 per cent.

COMMISSIONER GILBERT: This is of their own
MR. FORTIN: Of course, company, and guaranteed

COMMISSIONER GILBERT: Is there any special
advantage in being a loan company, and in acting that

COMMISSIONER GILBERT: A trust company
presumably could do the same thing as the loan company,
if it chose to.

MR. FORTIN: Except that there are differences
in the case with which you can obtain your money. There
is, for example, the view that it is easier to obtain
your money by way of sale of securities as opposed
to taking money by way of financed investment
certificates. The type of security is different.
One is easier to sell, according to some views; other
people say they are just the same.

is not too much difference, is there?
MR. FORTIN: Perhaps some of the loan



1 company men can talk to that. I think it might be
2 better if they did so.

3 MR. TAYLOR: Mr. Gibson, I think it must be
4 acknowledged that there is no essential difference.
5 I think the one is an extension of the powers of
6 the other, as you put it.

7 MR. NORSWORTHY: Mr. Gibson, I think there
8 is one advantage to us as a loan company in the sale
9 of debentures. There is the general obligation, along
10 with our savings deposits -- they rank the same
11 as debentures. A trust company has the G.I.R.'s,
12 and they segregate certain securities to support those
13 G.I.R.'s. That is correct, Mr. Taylor?

14 MR. TAYLOR: That is correct. The guaranteed
15 investment certificates or trust certificates have
16 trust significance in the specific assets that are
17 pledged.

18 MR. NORSWORTHY: Yes. We in our trust
19 company issue no securities to the public, nor do we
20 take deposits.

21 COMMISSIONER GIBSON: You are suggesting
22 that the general obligation is the more attractive one?

23 MR. NORSWORTHY: To us, yes.

24 COMMISSIONER GIBSON: And to the public?

25 MR. NORSWORTHY: And to the public -- very
26 much so. It may be quite local with us, but I believe
27 it is correct to say that it has its advantages in
28 the gathering of money.

29 COMMISSIONER GIBSON: This really brings
30 us to the next point I wish to explore a little bit,



1 namely, your competitive position. Are you under
2 any disadvantage from a competitive point of view?
3 Mr. Norsworthy says the kind of deposit or the kind
4 of debentures he may issue is an advantage over some
5 other people's obligations. Have you any serious
6 competitive disadvantage in relation to people with
7 whom you are trying to compete for funds and mortgages?
8 You mention the five-year problem, for example.

9 MR. FORTIN: Mr. Gibson, the ease with
10 which debentures can be sold, or the ease with which
11 people can be encouraged to put their money in trust
12 through the G.I.R.'s, to my way of thinking, are just
13 about the same across the board. To do so you have
14 to compete with the banks, with credit unions, and with
15 everybody who takes savings; and your weapon is the
16 term, the rate of interest, and any other niceties
17 which you can add as to the ease of getting your
18 money back and so on. There is nothing I know of that
19 is specifically against debentures or for G.I.R.'s.
20 There are some differences. For instance, the question
21 of transfer of guaranteed investment receipts -- whether
22 it is as easy to transfer or whether the certificates
23 are as easily moveable. Some companies do it one way;
24 some the other. I personally see little difference
25 between them. I think as far as the public is
26 concerned they are both favourably looked upon. Mrs.
27 Smith would prefer G.I.R.'s; Mr. Jones prefers
28 debentures -- it is about that way.

29 COMMISSIONER GIBSON: The important thing
30 is the rate of interest, the term, and so on, rather



1 than the form of obligation.

2 MR. FORTIN: I think we must also recognize
3 that in the case of a trust company the deposit
4 and sale of a G.I.R. does serve as a vehicle to attract
5 other types of business to the trust company, since
6 the trust company has much broader powers than the
7 loan company as to the kind of business it may carry
8 on. If you have a depositor or a G.I.R., probably
9 you can get the will; or, if they have any agency
10 work to be done, you can get it. Whereas, the loan
11 company hews to the line of mortgage loans.

12 COMMISSIONER GIBSON: So this is a competitive
13 advantage over your competitors.

14 MR. FORTIN: You will of course appreciate
15 that a trust company may not borrow by way of debentures.
16 It is confined to deposits and guaranteed investment
17 receipts. It may not issue debentures except in the
18 Province of Quebec, where some trust companies are
19 authorized to issue debentures, but only for the
20 purpose of providing head office space.

21 COMMISSIONER GIBSON: Turning to the other
22 side of competition, that is competition for assets,
23 your brief puts quite a lot of emphasis on the
24 problems of mortgages running for five-year terms,
25 so far as the mortgagor is concerned, and the fact
26 that you may be bound for a much longer term. This
27 is all quite understandable to me, but it seems to
28 me that your competitors labour under the same
29 disadvantage, and you are faced with competition
30 which forces you to do this. Is that correct?

MR. TOLSON: I think we would also recognize

that in the case of a bank security the deposit
and sale of a G.I.R. does serve as a vehicle to protect

other types of business to the same company, since

the bank company has much broader powers than the

loan company as to the kind of business it may carry

on. If you have a deposit on a G.I.R., probably

you can get the will; and if they have any agency

work to be done, you can get it. Whereas, the loan

company seems to be in the line of mortgage loans.

MR. TOLSON: I think it is a competitive

advantage over your company.

MR. TOLSON: You are of course appreciative

that a bank company may not be in the way of depositors.

It is confined to deposits and guaranteed investment

securities. It may not have the right except in the

Province of Quebec, where some trust companies are

authorized to issue debentures, but only for the

purpose of providing funds for the

JOHN EDWARD STONE: Turning to the other

side of competition, that is competition for assets,

your first point gives a list of applicants on the

problems of mortgages known for five-year terms.

so far as the mortgage is concerned, and the fact

that you may be found for a much longer term. This

is all quite understandable to me, but it seems to

me that your competitors should understand the same

disadvantages, and you are faced with competition

which forces you to do this. Is that correct?



1 MR. TAYLOR: The trust company labours
2 under the same circumstances, essentially.

3 COMMISSIONER GIBSON: And the insurance
4 companies too?

5 MR. FORTIN: Yes. It is a question really
6 of the short nature of obligations of loan companies
7 in relation to the National Housing Act calling for
8 up to 35-year loans. The problem does arise. All
9 these lenders are subject to the provision of the
10 Interest Act giving the borrower the right to repay, if it
11 is expressed in terms longer than five years.

12 COMMISSIONER GIBSON: But what I am getting
13 at is that the insurance companies and the trust
14 companies are making mortgage loans in competition
15 with you, and apparently despite this difficulty,
16 are making longer-term loans, and they are subject
17 to this five-year repayment. This is simply in the
18 nature of competition, is it not?

19 MR. TAYLOR: I think we must distinguish
20 between life companies on the one hand, and trust
21 companies on the other. Then there are the loan
22 companies -- speaking as one for the purposes of this
23 question -- borrowing either on demand by way of savings
24 or deposits, or on terms of up to five years. This
25 in itself makes it unwise to attempt to loan for longer
26 firm periods.

27 COMMISSIONER GIBSON: I appreciate this
28 point, Mr. Taylor, but insurance companies provide
29 you with competition because their money is of a
30 longer-term character. But, this is part of the

Mr. TAYLOR: The first company is

the one which is, essentially,

COMMISSIONER OF FINANCE, and the

company is

Mr. TAYLOR: Yes, it is a company

of the sort which is called a loan

in relation to the National Housing Act, for

up to 25-year loans. The problem

these loans are set out in the provision of the

interest in giving the borrower the right to have, if it

is expressed in terms of five years.

COMMISSIONER OF FINANCE: Now what I am

at is that the insurance companies and the trust

companies are making money in the

with you, and especially in the

are making longer-term loans, and they are

to take five-year payments. This is

nature of competition, is it not?

MR. TAYLOR: I think it is

between the companies on the one hand and

companies on the other. These are the

companies - speaking of one of the purposes of this

action - providing either on a way of saving

or deposit, or on terms of up to five years. This

it itself makes it unwise to attempt to loan for longer

time periods.

COMMISSIONER OF FINANCE: I appreciate this

point, Mr. Taylor, but insurance companies provide

you with competition because their money is of a

longer-term character. But, this is part of the



1 competition of mortgage business.

2 MR. TAYLOR: Quite right. But they are
3 not faced with the same disadvantages, because they
4 are not borrowing short.

5 COMMISSIONER GIBSON: So, from a competitive
6 point of view they have an advantage over you, and
7 the trust companies are in the same position. Is
8 that correct?

9 MR. TAYLOR: The trust companies are in
10 the same position as we are?

11 COMMISSIONER GIBSON: Yes.

12 MR. TAYLOR: Yes, that is correct. Both
13 the trust and loan companies are at a disadvantage
14 vis-a-vis the life companies in this respect.

15 COMMISSIONER GIBSON: You couldn't extend
16 your borrowings or raising of funds to a longer term
17 in order to meet the life company's competition. You
18 say your money is obtained on a short basis, or
19 relatively short. Have you looked into the question
20 of trying to obtain it on a longer basis?

21 MR. TAYLOR: We can only loan on a longer
22 basis under the assistance of N.H.A. rates, which
23 at the present time is $6\frac{1}{2}$ per cent; we couldn't
24 borrow at a rate that would yield a margin to make
25 it profitable or feasible.

26 COMMISSIONER GIBSON: But you can make
27 conventional mortgage loans for whatever period you
28 like, can't you?

29 MR. TAYLOR: We can if they are made to
30 a corporate borrower; not if they are made to an



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1 individual. There is no way it can pay off at the
2 end of five years.

3 COMMISSIONER GIBSON: I am talking about
4 your competition. I realize he is free to pay off,
5 but you can offer him a longer mortgage, can you not?

6 MR. FORTIN: That is correct.

7 MR. MACKENZIE: We do guarantee the rate
8 for 10 years.



1 MR. TAYLOR: Does anybody else care to
2 comment on this?

3 MR. LECHARTIER: There is a difference as
4 between the term of the loan and the amortization be-
5 cause most companies calculate the time of amortizations
6 for periods of 10, 15 or 20 years, and when the loan
7 matures after five years it can be continued --
8 and this is what is generally done -- at a new rate
9 which is higher or lower depending upon conditions
10 in the market.

11 COMMISSIONER GIBSON: So that even if you
12 raise money on a 10-year basis and have a rate that
13 does not make sense, you can make a new rate when you
14 renew?

15 MR. LECHARTIER: We are in a special position
16 because we raise our money by way of long-term bonds.
17 We raise our money for periods of 15 or 20 years.

18 COMMISSIONER GIBSON: So your business is
19 essentially a little different from that of many of
20 the other loan companies?

21 MR. LECHARTIER: In many cases.

22 COMMISSIONER GIBSON: Is most of your loaning
23 of a long-term character?

24 MR. LECHARTIER: Yes, mostly.

25 MR. FORTIN: Another aspect is that you
26 can borrow money at a cheaper rate for a short term
27 than for a long term.

28 MR. TAYLOR: That was the point I was
29 attempting to make, but I did not state it as clearly
30



1 as Mr. Fortin did.

2 MR. FORTIN: There is one other company
3 which follows the same practice as Mr. Lechartier's
4 company. It is a mortgage corporation, but it does
5 not take deposits; it issues long-term bonds.

6 COMMISSIONER GIBSON: Now, with respect
7 to this matter of competing for mortgages, does
8 competition affect appraisal standards very much?
9 You put much emphasis on lending up to two-thirds
10 of the value of the property, but you point out that
11 appraising the value of the property is a matter of
12 judgment. Is there much flexibility in appraisals
13 from a competitive point of view? In other words, can
14 you stretch it a bit; is there any relationship
15 of appraisals to the competitive factor?

16 MR. FORTIN: I would say that appraising
17 is a tight sort of thing. There are differences,
18 and it might be that a company might stretch a point
19 in order to get a particular loan, but I do not think
20 it is a general practice. I think the appraisers
21 themselves are rather jealous of their judgment. Of
22 course, there are bound to be differences, but I do
23 not think that competition itself affects the judg-
24 ment of the appraisers in setting the value. That
25 could happen in the odd case, but I do not think it
26 is general at all.

27 MR. TAYLOR: I think the mortgage inspector
28 may be looked upon as a salesman. He is competing in
29 the field with other inspectors, but his head office
30 must make sure that his judgment is not being warped.



Mr. Tolson said:

Mr. Tolson, there is no other company which follows the same practice as the International Company. It is a mortgage corporation, but it does not take deposits. It issues long-term bonds.

Mr. Tolson: I am with you, with respect to this matter of competing for mortgages, does competition affect approximately the same very much?

You put much emphasis on lending up a two-thirds of the value of the property, but you point out that approximately the value of the property is a matter of judgment. Is there not a flexibility in appraisals?

From a competitive point of view, in other words, can you stress it a bit; is there any relationship of appraisals to the competitive factor?

Mr. Tolson: I would say that appraisals to a slight sort of thing, there are differences and it might be that a common, right across a point in order to get a mortgage loan, but I do not think it is a general practice. I think the appraisers themselves are rather loose in their judgment. Of course, they are bound to be liberal, but I do not think that competition really affects the judgment of the appraisers in setting the value. That could happen in the old days, but I do not think it is general at all.

Mr. Tolson: I think the mortgage insurance may be looked upon as a safeguard. It is competing in the field with other insurance, but his head office has not been some time but insurance is not being worked.



1 I think it is the constant job of the central office
2 to see that there is no stretching of a point, otherwise
3 it could quickly get out of hand. Do you agree with
4 that?

5 MR. LECHARTIER: Yes.

6 COMMISSIONER GIBSON: I suppose at any given
7 time, in looking at a property, there would be a logical
8 range of difference of, perhaps, 5 or 10 per cent?

9 MR. TAYLOR: Yes. It is a matter of indi-
10 vidual judgment.

11 COMMISSIONER GIBSON: Would the appraisers
12 or inspectors be conscious of the fact that you were
13 anxious to increase your loans, or are these inspectors
14 pretty professional sort of people who just go out and
15 do a job by certain standards?

16 MR. TAYLOR: I think it is fair to say
17 that they are professional people, but you must
18 acknowledge that they are also salesmen, and as
19 salesmen it is up to them to see that the selling
20 aspect does not warp their judgment in the appraisal
21 of an individual loan. Does that answer your question?

22 COMMISSIONER GIBSON: You have a constant
23 problem here, really.

24 MR. TAYLOR: Yes. I wonder if the same
25 situation applies in the life insurance business where
26 the life salesman is out to get volume,
27 but his actuarial department is there to put the
28 brakes on him. I think the same situation applies.
29 The mortgage inspector applies his judgment only, but
30 he is aware also of competition and of what he is ex-



1 pected to do. It is up to his head office to put the
2 brakes on.

3 COMMISSIONER MACKINTOSH: Would not a closer
4 parallel be as between your appraiser and the examining
5 doctor for the life insurance company?

6 MR. TAYLOR: Yes, I suppose so. I am sure
7 I speak for each member company when I say that we
8 have a form of internal check and inspection of
9 properties by head office personnel who are divorced
10 entirely from any competitive influence, and whose
11 job it is to insure that valuations that are being
12 made are sound.

13 I did not intend to do so much talking here,
14 Mr. Chairman. Does anybody have any comment to make?

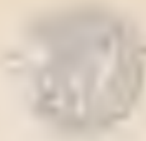
15 MR. NORSWORTHY: I might add that a great
16 many of these men are trained in appraisal work,
17 having attended schools for appraisers and refresher
18 courses. I think that has been quite common.

19 COMMISSIONER GIBSON: And your company's man
20 would have a similar background in appraising as would
21 Mr. Taylor's man.

22 MR. NORSWORTHY: Yes, I would say so.

23 MR. TAYLOR: There are appraisal associations,
24 and I would think that most appraisers of most companies
25 would be members of appraisal institutes. These
26 are maintained not only by loan companies and mortgage
27 companies, but they are participated in by real estate
28 interests of all kinds.

29 COMMISSIONER GIBSON: So you would say that
30 competition in the amount of the loan is fairly limited ;



to do. It is up to his head office to put the

...

COMMISSIONER TIBBON: Would not a closer

relationship as between your department and the examination

doctor for the life insurance company?

MR. TIBBON: Yes, I suppose so. I am sure

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have a form of internal check and inspection of

properties by head office personnel who are divorced

entirely from any competitive influences, and whose

job it is to insure that relations that are being

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I did not intend to do so when talking here,

MR. TIBBON: Does anybody have any comment to make?

MR. TIBBON: I might add that a great

many of these men are trained in business work,

having attended schools for business and otherwise

courses. I think that has been put to common

COMMISSIONER TIBBON: And your company's men

would have a similar background in regarding as would

Mr. TIBBON: Yes

MR. TIBBON: Yes, I would say so.

MR. TIBBON: There are several associations

and I would think that most members of most companies

would be members of some of these associations. There

are maintained not only by the companies but and perhaps

companies, but they are getting used to it, well, outside

interests of all kinds.

COMMISSIONER TIBBON: So you would say that

relationship is one of the things that is being limited



1 is that correct? In other words, there is not too
2 much room for competition in the amount of the mortgage
3 loan?

4 MR. TAYLOR: I would not go that far. It
5 is hard to generalize. I think within a relatively
6 small percentage range there is great competition.

7 COMMISSIONER GIBSON: What would this range
8 be -- 5 or 10 per cent?

9 MR. TAYLOR: That depends entirely on the
10 type of property. I think in new house construction
11 it would be a smaller margin than that which would
12 apply to industrial and commercial lending. Would
13 you agree with that?

14 COMMISSIONER GIBSON: There would be a
15 wider range when you are dealing with a shopping
16 centre or an office building, and that sort of thing?

17 MR. TAYLOR: I would think so, yes.

18 COMMISSIONER GIBSON: Then, the rate is
19 very important competitively, I take it?

20 MR. TAYLOR: Extremely so.

21 COMMISSIONER GIBSON: But at any given time
22 your rates are pretty much the same?

23 MR. FORTIN: Your competition forces them
24 to the same level.

25 COMMISSIONER GIBSON: What would you say
26 is the most important factor in the competition? Is
27 it the amount you are prepared to loan on a particular
28 property, or is it the rate at which you are prepared
29 to loan?
30



in that context? In other words, there is not too much room for competition in the amount of the mortgage loans?

MR. TAYLOR: I would not go that far, it is hard to generalize. I think within a relatively small percentage range there is great competition.

COMMISSIONER GIBSON: What would this range be -- 5 or 10 per cent?

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COMMISSIONER GIBSON: There would be a wider range when you are dealing with a shopping centre or an office building, and that sort of thing?

MR. TAYLOR: I would think so, yes.
COMMISSIONER GIBSON: Then, the rate is

very important comparatively, I take it.
MR. TAYLOR: Absolutely so.

COMMISSIONER GIBSON: But at any given time your rates are pretty much the same?

MR. TAYLOR: Your competition forces them to be the same level.

COMMISSIONER GIBSON: What would you say is the most important factor in the competition? Is it the amount you are prepared to loan on a particular property, or is it the rate at which you are prepared to loan?



1 MR. TAYLOR: I think in a period of tight
2 money, such as exists here today, it is perhaps the
3 amount you are prepared to loan that would be the
4 more important of the two factors, but under conditions
5 of easier money the rate would be the predominant factor.

6 MR. FORTIN: There is also, in both cases,
7 the speed of pay out of the mortgage money. A company
8 closer by can get you the money more quickly. They
9 can decide very quickly either Yes or No. A company
10 that is further away may be delayed somewhat. So,
11 the company which is prepared to jump in and give the
12 money right away wins out, assuming that the rate and
13 other things are equal. There are some niceties, as
14 in everything else. Some people seem to be better able
15 to attract business than others. There are all these
16 personal problems that arise, but the speed of the pay
17 out is one of the factors.

18 COMMISSIONER GIBSON: Another way of looking
19 at this business of growth and the competitive situation
20 is to look at the margin of profit. According to
21 your brief, the profits have been pretty steady in
22 recent years. In the last six years or so there has
23 been relatively little increase, even though your
24 assets have risen quite a lot. This comes out in
25 paragraph 72 of your brief. You will see that the
26 profit spread after taxes shows comparatively little
27 change from 1956 to 1960.

28 MR. FORTIN: These have been good years, and
29 there has been a lot of demand for mortgage loans.
30 You will notice, on the other side, that the loan



1 companies have been able to attract more money to them-
2 selves. Economic conditions have been such that there
3 have been no, or practically no, delinquent mortgage
4 debtors. There has been no particular problem in col-
5 lecting interest, and so on. So, the recent years
6 have been pretty good years.

7 COMMISSIONER GIBSON: But the profits have
8 not increased in the last five years to speak of and
9 yet your assets are up quite a lot. On page 56 you
10 will see the increase in assets.

11 MR. FORTIN: The cost of doing business
12 has gone up.

13 MR. MACKENZIE: The corporation tax in-
14 creased in that time from 48 per cent to 52 per cent.

15 COMMISSIONER GIBSON: Well, your assets
16 are up by 50 per cent.

17 MR. MACKENZIE: The last six years have been
18 very difficult years. Short-term money has been
19 tight, and the average spread you could get on the
20 cost of your money has been whittled down. For example,
21 within the last month or so we have been paying 6 per
22 cent plus for term money, and even if you can lend it
23 out at 8 per cent the gross spread is a little less
24 than two per cent. If it costs you one per cent to
25 administer, then the other less than one per cent has
26 to be shared with the corporation tax.

27 THE CHAIRMAN: Your figures show the spread
28 to be more than that. It seems to average 2.8 per
29 cent.

30 MR. MACKENZIE: Yes, but I am talking about



1 investing the dollar through the borrower today.

2 THE CHAIRMAN: At times when the spread
3 has been less than a certain amount have you cut back?

4 MR. MACKENZIE: We certainly have.

5 THE CHAIRMAN: What are reasonable spreads?

6 MR. MACKENZIE: Eight per cent is about the
7 maximum rate you can charge today, but if you are
8 paying 6 per cent for your money your gross spread
9 is 2 per cent.

10 THE CHAIRMAN: And an 8 per cent asset
11 would not be of the highest quality of assets?

12 MR. MACKENZIE: Not necessarily so. Money
13 is the commodity. If you have to pay a lot for it
14 then you have to get a higher rate of return when you
15 invest it.

16 MR. TAYLOR: I think the effective rate in
17 the last few months -- the effective earning rate --
18 has been closer to $7\frac{1}{4}$ per cent.

19 MR. MACKENZIE: That is right.

20 MR. TAYLOR: We are in direct competition
21 with all other lenders such as trust companies and
22 life insurance companies. There is a multitude of
23 other lenders. I think a rate of between 7 and $7\frac{1}{4}$ per
24 cent has applied during the last few months, and
25 during that time we have been borrowing money at rates
26 as high as 6 per cent.

27 COMMISSIONER GIBSON: From $4\frac{1}{2}$ per cent to
28 6 per cent?

29 MR. TAYLOR: No, $5\frac{1}{2}$ per cent to 6 per cent.

30 MR. FORTIN: Except on deposits.



...over the borrower today.

...the time when the spread

has been less than a certain amount have you a bank?

THE CHAIRMAN: What are reasonable numbers?

MR. WACHENWITZ: Right now what is about the

maximum rate you can charge today, but if you are

THE CHAIRMAN: And at 8 per cent each

would set up of the interest policy of industry

MR. WACHENWITZ: Not necessarily so. Today

is the commodity. If you have to pay a lot for it

then you have to pay a higher rate of return when you

invest it.

MR. TAYLOR: I think the effective rate in

the last few months -- the effective earning rate --

has been closer to 15 per cent.

MR. WACHENWITZ: That is right.

MR. TAYLOR: He is in direct competition

with all other lenders such as other companies and

this insurance companies. There is a multitude of

other lenders. I think a rate of between 7 and 10 per

cent has quoted during the last few months, and

during that time we have been borrowing money at rates

as high as 6 per cent.

COMMISSIONER DUNN: From 4 per cent to

6 per cent?

MR. TAYLOR: Except on occasion.



1 MR. TAYLOR: I am talking about term money
2 of from one to five years.

3 COMMISSIONER GIBSON: So your margin has
4 been less than 2 per cent on your additional marginal
5 business?

6 MR. TAYLOR: Yes.

7 COMMISSIONER GIBSON: You seem to have
8 been reasonably successful in keeping your administrative
9 costs down as a proportion of your total operation.
10 You show figures on page 41 which suggest a pretty
11 effective cost control. In any case, the percentage
12 of administrative costs as compared to assets to be
13 administered has not been rising?

14 MR. FORTIN: I think one can say that it
15 is a constant struggle to keep expenses down, because
16 this margin we talk about fluctuates depending, on
17 the one side, on what you can get from your mortgages,
18 and on the other, on what you have to pay for money,
19 and that varies from day to day. So, if you allow
20 your expenses to go too far afield you have not got
21 much time in which to catch up because these other
22 factors also catch up. Right through the piece you
23 have a tendency to keep your costs down, and you have
24 to find new ways of doing things at less cost.

25 COMMISSIONER GIBSON: You tend to have
26 larger individual operations in a highly competitive
27 environment, and a smaller margin in order to have
28 your volume?

29 MR. FORTIN: Not if it is not profitable.
30 If the thing gets so bad that you cannot get money at



1 a rate then you borrow less money and begin to pay back
2 what you have got so as to cut your interest costs. If,
3 on the other hand, you can get your money out at a good
4 rate of interest, and there is plenty of it being
5 called for, then you will be willing to pay more for
6 your money in order to be able to get the larger business.

7 COMMISSIONER BROWN: What is this marginal
8 spread?

9 MR. FORTIN: As we tried to explain in the
10 brief, Commissioner Brown, there is a rate which each
11 company would like to get. It is the asking rate.
12 It is a rate which takes care of the cost of money,
13 the cost of administration, taxes, provision for losses,
14 and something to plough back into the business. It
15 does not mean to say that because that is the rate
16 you would like to get that you can get it, because
17 there are other lenders in the field with other
18 requirements. You just test the market with the rate
19 you would like to get, and you find you do not get any
20 business. You cannot get mortgages at that rate.
21 Then, if you want to continue in the mortgage business
22 you must reduce your asking rate in order to compete
23 with other people, in which case you are faced with
24 deciding how much you want to take in relation to
25 the cost of the money. You will tighten down on your
26 operations by doing less volume if money is too high,
27 because your margin, as I explained, has thinned out.

28 COMMISSIONER BROWN: You said the point was
29 the rate at which you stop borrowing and start paying
30 back and reducing your lending, but what point is that?

On the other hand, you can get your money out at a good

rate of interest, and there is plenty of it being

called for, then you will be willing to pay more for

your money in order to be able to get the larger business.

COMMISSIONER BROWN: What is this marginal

MR. WORTIN: As we tried to explain in the

brief, Commissioner Brown, there is a rate which each

company would like to get. It is the saving rate.

It is a rate which takes care of the cost of money,

the cost of administration, taxes, provision for losses,

and something to plough back into the business. It

does not mean to say that because that is the rate

you would like to get that you can get it, because

there are other lenders in the field with other

requirements. You just tent the market with the rate

you would like to get, and you find you do not get any

business. You cannot get mortgages at that rate.

Then, if you want to continue in the mortgage business

you must reduce your saving rate in order to compete

with other people, in which case you are faced with

deciding how much you want to take in relation to

the cost of the money. You will tighten down on your

operations by doing less volume if money is too tight,

because your margin, as I explained, has thinned out.

COMMISSIONER BROWN: You said the point was

the rate at which you stop borrowing and start paying

back and reducing your lending, but what point is that?



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1 What is the margin below which you will not go?

2 MR. FORTIN: It will vary with every company,
3 because it varies with its profit and loss account.

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1 COMMISSIONER GIBSON: It would vary with the
2 size of the operation, too?

3 MR. FORTIN: And how extensive it is, whether
4 it is from coast to coast, or local, or what.

5 COMMISSIONER BROWN: Then, in your total
6 on page 68 I think you are comparing 1956-1957 to 1960,
7 and it appears that your payments on interest double
8 whereas your income from interest on mortgages
9 is increased by only 50 per cent, so there is an
10 obvious thing there.

11 The point I was going to ask on particularly
12 on that table was on the transfers to investment
13 reserves. It went up from \$611,000 to a billion 4
14 in 1959 and a billion in 1960, and in 1958 it was
15 only \$48,000; why would this be?

16 MR. FORTIN: This is in thousands; it is
17 one million.

18 COMMISSIONER BROWN: I am sorry;
19 one million four in '59, and one million in '60.

20 MR. FORTIN: It is one million. You
21 startled me by putting it that way. As the brief
22 explains the question of reserve is a peculiar one.
23 You will notice that the tables are based on the
24 accounting methods adopted by the Ontario Registrar
25 of Loan and Trust Corporations, which are not the same
26 as by the Federal Superintendent of Insurance, so that
27 the treatment of reserves in Ontario, although it is not
28 being done by some companies, is that the assets
29 are netted and hence the reserve doesn't show nor
30 does the transfer show, whereas in other cases the

does it is further show, whereas in other cases the

are netted and hence the reserve doesn't show that

being done by some companies, as that the assets

the treatment of reserves in Ontario, although it is not

as by the Federal Government of treatment, so that

of loan and trust corporations, which are not the same

accounting methods adopted by the Ontario Registrar

You will notice that the tables are based on the

explains the question of reserve is a general one,

stated me by putting it that way, as the table

MR. LORAIN: It is one million, you

one million four in '52, and one million in '53.

COMMISSIONER BROWN: I am sorry;

one million.

MR. BOWEN: There is in that table; it is

only \$25,000; why would this be?

to 1950 and a billion in 1950, and in 1950 it was

reserves. It went up from \$25,000 to a billion in

on that table was on the transfers to investment

The point I was making was not particularly

obvious thing there.

is increased by only 50 per cent, so there is an

whereas your income from interest on mortgages

and it appears that your payments on interest double

on page 68 I think you are comparing 1950-1951 to 1950,

COMMISSIONER BROWN: When, in your table

it is from coast to coast, or local, or what.



1 asset is gross and the reserve is set up and that is
2 actually the way it should be handled because those
3 are the published official figures, so that
4 as the brief says the amount of the reserve is greater,
5 the actual reserve is greater than that shown in these
6 figures because of this difference in accounting.

7 COMMISSIONER GIBSON: And there is no way
8 to show how much?

9 MR. FORTIN: I don't know of any unless
10 you were to recast all the accounting over those
11 years.

12 MR. TAYLOR: You have asked a question that
13 I think perhaps it is nice for us to reply to in
14 generalities, but I think from your standpoint it would
15 be more satisfactory if we attempted to be more
16 specific.

17 I think each company borrows to some extent
18 on its own costing but I think, speaking generally for
19 the companies -- and I stand corrected if this does
20 not apply -- I think there must be a margin between
21 $1\frac{3}{4}$ and 2 per cent to achieve a break even point
22 between borrowing on debentures and loaning on mort-
23 gages. Would you agree on that, that between $1\frac{3}{4}$
24 and 2 per cent is the experience in the lending
25 companies?

26 COMMISSIONER BROWN: When the spread gets
27 below that you don't actively go after further mortgages?

28 MR. TAYLOR: Well no you don't, that is
29 perfectly true. I can answer specifically, if I am
30



1 not acting in poor taste by referring to my own company,
2 that we for instance in the month of August, simply by
3 pressure of competition on interest rates, generally
4 we were loaning at the recognized rate of between 7 and
5 $7\frac{1}{4}$ per cent; we were doing practically no loaning over
6 $7\frac{1}{4}$ per cent. We did for a short period of time borrow
7 money at 6 per cent. We didn't advertise as we took
8 it only for one and two year terms and we were losing
9 money on it. We did it to protect our existing con-
10 nections, it was important to us to maintain these
11 connections, but because we were conscious of the
12 fact we were definitely losing money on that we neither
13 advertised for it nor attempted to get any new money
14 at that rate because we were operating on a spread there
15 of about one to $1\frac{1}{4}$ per cent. I am sorry if I am in
16 poor taste in referring to my own case.

17 COMMISSIONER BROWN: Here is an example of
18 one question which I was going to ask you. A number
19 of your member companies are national companies?

20 MR. TAYLOR: Yes.

21 COMMISSIONER BROWN: To what extent do
22 geographical differences enter into this; are you
23 borrowing in one part of the country and loaning to
24 another part, and in that way getting a greater spread?

25 MR. TAYLOR: That is right; I think the
26 spread would be no greater than one-quarter of one
27 per cent from the standpoint of geographical sig-
28 nificance, I don't think there would be more than one-
29 quarter of one per cent in the various areas.
30

not being in poor taste by referring to my own company,
that we for instance in the month of August, simply by
pressure of competition in interest rates, in effect
we were loaning at the reduced rate of between 7 and
7 1/2 per cent; we were loaning practically no loaning over
1 1/2 per cent. We did for a short period of time borrow
money at 6 per cent. We didn't advertise as we look
it only for one and two week terms, and we were loaning
money on it. We did it to protect our existing con-
nections, it was important to us to maintain these
connections, but because we were conscious of the
fact we were definitely loaning money on that we neither
advertised for it nor attempted to get any new money
at that rate because we were operating on a spread there
of about one to 1 1/2 per cent. I am sorry if I am in
poor taste in referring to my own company.
COMMISSIONER BROWN: There is no example of
one question which I was going to ask you. A number
of your member companies are national companies?
MR. TAYLOR: Yes.
COMMISSIONER BROWN: To what extent do
geographical differences affect your business and your
borrowing in one part of the country and lending in
another part, and in what way getting a greater spread?
MR. TAYLOR: That is right; I think the
spread would be in respect to the location of the
new loan from the standpoint of geographical situ-
ation. I don't think it would be more than one
quarter of one per cent in the various areas.



1 COMMISSIONER BROWN: Can you give us a picture
2 of what these regional differences are?

3 MR. MACKENZIE: In the Maritime provinces
4 and in Nova Scotia in particular, there are two local
5 companies, The Eastern Canada Savings and Loan and the
6 Nova Scotia Savings and Loan and Building Society, and
7 their debenture rates are easily half a point more than
8 Canada Permanent rates are in that area, and likewise
9 for the savings deposits, where we are paying $3\frac{1}{2}$ on
10 the chequing accounts and 4 per cent on the special
11 savings, they are now 4 per cent on the chequing
12 accounts and $4\frac{1}{2}$ for the non-chequing accounts.

13 That has been traditional, and therefore we pump more
14 money into Nova Scotia from other parts than
15 we take out and we invest the Nova Scotia money.

16 COMMISSIONER BROWN: The western part of
17 the country; is there any regional difference there?

18 MR. TAYLOR: I think there is an even more
19 slight differential; I think in the prairie provinces,
20 I would be quite sure that it would be one-quarter or
21 less in my experience; I wouldn't think it would run
22 above a quarter and in a great majority of loans the
23 rate that would apply to comparable properties on the
24 prairies and in Ontario would be the same, and I think
25 there are cases where the rate runs up as high as one-
26 quarter, but nothing more than that. Would you agree with
27 that?

28 MR. MACKENZIE: I can't speak too well for
29 the west.

30 MR. TAYLOR: I would think basically, so as
not to give the wrong impression, that rates in the



1 prairies and in Ontario would be the same.

2 MR. MACKENZIE: I think it should be pointed
3 out, too, that we people in the loan industry are
4 individualists; there is never any collaboration on
5 the rates we charge on mortgages or the loans which
6 we allow on debentures, and so on. The need at the
7 time pretty well sets the pattern. There is no
8 collaboration. There is no setting of rates.

9 COMMISSIONER BROWN: I will turn to a
10 slightly different topic, but first do any
11 of the other Commissioners have any questions on this
12 part of it?

13 COMMISSIONER MACKINTOSH: Might I interject
14 a question which goes back to almost the beginning.
15 Why did none of these companies ever develop to any
16 degree the Building Society features with which they
17 started?

18 MR. FORTIN: This is before my time, but
19 I have heard that the Canadian public didn't go for it --
20 this is only hearsay to me -- and unfortunately most of
21 the people who were then active are not here and I have
22 not been able to find any literature that covers the
23 point.

24 MR. TAYLOR: I think the Building Society
25 operation as it applied in the middle and the latter
26 part of the 19th century called for borrowing
27 from the old country; your borrowing customers were not
28 in your immediate area. The money was brought over
29 and loaned to people who were developing land. That
30 was the origin, I think, of your company and ours.

and in this would be the same.

MR. WALKER: I think it would be pointed

out, too, that we people in the loan industry are individualizing these is never any collection of the money we charge on mortgages on the loans with we allow on debentures, and so on. The result the time pretty well sets the pattern. There is no collaboration. There is no setting of rates.

COMMISSIONER BROWN: I will turn to a

slightly different topic, but first as any of the other Commissioners have any questions on this part of it?

COMMISSIONER WALKER: I have a question

a question which goes back to almost the beginning. Why did some of these companies ever develop to any degree the Housing Society interest with which they

MR. BROWN: This is before my time, but

I have heard that the Canadian public almost go for it -- this is only hearsay to me -- and I am not sure if that is the people who were their active and not passive and I have not been able to find any literature that shows the

MR. BROWN: I think the loan on society

operation as it applied in the middle and the latter part of the 19th century called for borrowing

from the old country. Your borrowing companies were not in your immediate area. The money was brought over

and loaned to people who were developing land. That

was one of the things, I think, of your country and



1 MR. NORSWORTHY: Back in 1847 our company
2 then known as the Port Sarnia Building Society, and
3 then in 1855 it was the Lambton Permanent Building and
4 Investment Society, and we obtained money by way of
5 auctions, and possibly if you care to read this para-
6 graph, Dr. Mackintosh, it may help to explain it.

7 COMMISSIONER MACKINTOSH: I will look at
8 it later. Thank you very much. I have always been
9 curious as to why these companies which you established
10 on the British model did not develop, whereas in Britain
11 the building societies have become one of the pillars.

12 MR. NORSWORTHY: I believe in the case of
13 our company that was the idea when it came over here.

14 COMMISSIONER MACKINTOSH: Thank you.

15 COMMISSIONER BROWN: I wonder if I could
16 move to another part. The brief has a section
17 on the money supply of loan companies, and I am not
18 quite sure whether you are dealing with this because
19 you think you are almost banks and you are afraid
20 you might be considered banks, or that you want to
21 be banks, or that you don't want to be banks. You
22 are obviously carrying on some operations which are
23 pretty akin to banking operations, particularly savings
24 banks.

25 --

26 --



1 For example, have you any figures on your turnover
2 of savings accounts on deposits?

3 MR. FORTIN: No. I think the explanation
4 is that a number of the loan companies were parties
5 to the study made for the trust companies by
6 Western University and that that phase, that section
7 of the Western University study, applies to the loan
8 companies in that field, and the companies that took
9 deposits were part of that study and we didn't make
10 any other study.

11 It shows in that study how the loan companies
12 and the trust companies are in the same position,
13 vis-a-vis the question of what is banking and what is
14 not banking, and there is no difference between the
15 position of the loan companies than that taken by
16 the trust companies. We do the same kind of borrowing
17 by way of taking deposits and borrowing by way of
18 obligation.

19 THE CHAIRMAN: The trust companies had some
20 arrangement whereby the monies were trust monies
21 and I don't think that applies to your mortgage loans,
22 does it?

23 MR. FORTIN: From a practical point of view,
24 Mr. Chairman, and not wanting to be facetious about
25 it, I think the trust angle is perhaps more of a legal
26 fiction.

27 COMMISSIONER BROWN: Now he tells us!

28 MR. FORTIN: The result is the same; we
29 take money and we re-lend it, and in speaking in terms
30 of the monetary situation the position is just the same.



1 THE CHAIRMAN: That is what I had thought
2 myself, but some of the members of the organization
3 who appeared before us very strongly took the
4 opposite view.

5 MR. FORTIN: The method of obtaining the
6 money is different. The effect is that once you have
7 it you loan it, and instead of borrowing it you
8 accept it in trust and you get it and you lend it out
9 and, as I say, from the point of view of monetary control
10 and the use of the money in the stream, whether I give
11 my money to a loan company or to a trust company, both
12 make mortgage loans and the effect is just the same.

13 We don't think we are doing a banking
14 business -- not being too sure what "banking" means --
15 we don't think that the taking of deposits by itself
16 constitutes banking, nor do we think that if the deposit
17 happens to be chequing that that by itself constitutes
18 banking, and we think that banking is a sort of a broad
19 specialized thing, some of which we are not able to
20 do.

21 THE CHAIRMAN: What are you not able to do?

22 MR. FORTIN: We are unable, for example,
23 to make loans on bills of exchange; we are limited
24 to certain definite types of investments, which are
25 much more stringent than the banks are. For example, we may
26 not make loans on the security of inventories, and
27 that type of thing.

28 We borrow money and we get it
29 and we lend it.

30 COMMISSIONER BROWN: What is the difference

THE CHAIRMAN: That is what I am showing

myself, but some of the members of the organization

who appeared before us very strongly took the

opposite view.

MR. TOLSON: The method of obtaining the

money is different. The effect is that once you have

it you loan it, and instead of borrowing it you

accept it in kind and you pay it and you lend it out.

and, as I say, from the point of view of monetary control

and the use of the money in the stream, whether I give

it money to a loan company or to a trust company, both

make mortgage loans and the effect is just the same.

We don't think we are doing a banking

business -- we are doing the same thing "banking" means --

we don't think that the thing of deposits is itself

characteristic banking, nor do we think that if the deposits

happens to be operating that that by itself characterizes

banking, and we think that banking is a sort of a broad

specialized thing, some of which we are not able to

THE CHAIRMAN: What are you not able to do?

MR. TOLSON: We are making, for example,

to make loans on bills of exchange; we are limited

to certain definite types of transactions, which are

much more restricted than the banks are. For example, we

not make loans on the security of unimproved, and

these types of thing.

we borrow money and we pay it

and we lend it.

COMMISSIONER FOWLER: What is the difference



1 between your operation and that of, say, the Quebec
2 Savings Banks?

3 MR. FORTIN: They are only different
4 in two ways. Firstly, the Quebec Savings Banks must limit
5 itself on the borrowing side as to deposits and may
6 not issue debentures or that type of thing, and secondly,
7 the nature of the Quebec Savings Banks' investments
8 is different; for example, they may make unsecured
9 loans which we cannot, they are limited as to their
10 mortgage loans essentially to
11 residential construction, they are limited in that
12 respect to a percentage of their deposit liabilities,
13 which we are not.

14 COMMISSIONER BROWN: So, in some ways you
15 are in a better position than the Quebec Savings Banks?

16 MR. FORTIN: As to amount in mortgages
17 but not as types of investments because the Quebec
18 Savings Banks can do some loan business without security;
19 we can't do that.

20 COMMISSIONER BROWN: In talking about
21 controls and cash reserves, you have a peculiar sentence
22 in paragraph 14.

23 MR. FORTIN: That is possible!

24 COMMISSIONER BROWN: You talk about a
25 cheque drawn on a bank and you say:

26 "either way the particular bank
27 loses the deposit and recovers the cash
28 reserve it held in the central bank."

29 MR. FORTIN: That is paragraph 14?

30 COMMISSIONER BROWN: Yes, paragraph 14.

between your operation and bank of, say, the Quebec

MR. BOWEN: They are only different

in two ways. Firstly, the Quebec Savings Bank must not

itself on the borrowing side, as to deposits and may not issue debentures of that type of course, and secondly,

the nature of the Quebec Savings Bank's investments

is different; for example, they may have more

loans which we cannot, they are limited as to this

mortgage loans essentially so

residential construction, they are limited in their

request to a percentage of the deposits, I believe,

which we are not.

COMMISSIONER BOWEN: So, in some ways you

are in a better position than the Quebec Savings Bank?

MR. BOWEN: As to assets, in some ways

but not as types of investments because the Quebec

Savings Bank can do some new things without restriction

we can't do that.

COMMISSIONER BOWEN: In talking about

controls and cash reserves, you have a peculiar situation

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MR. BOWEN: That is correct.

COMMISSIONER BOWEN: You talk about a

check drawn on a bank and you say

"either way the position is the

same the deposit and reserve are the

same it is held in one central bank

MR. BOWEN: That is correct.

COMMISSIONER BOWEN: Yes, I understand it.



1 MR. FORTIN: Yes.

2 COMMISSIONER BROWN: I find difficulty in
3 understanding this because surely if a bank loses
4 a deposit to another bank, it loses the whole of the
5 cash reserve equivalent to the amount of that deposit
6 which it has in the central bank, it doesn't
7 recover anything?

8 MR. FORTIN: But the 8 per cent which was
9 held for that deposit is no longer required; in other
10 words, the minimum reserve, the unearning part, that
11 is the reserve which it can loan and earn interest on
12 is increased by the fact that the 8 per cent non-
13 interest earning no longer has to be kept.

14 COMMISSIONER BROWN: I think you are a little
15 confused on that, are you not?

16 MR. FORTIN: This is quite possible.

17 COMMISSIONER BROWN: Suppose that it is
18 \$100,000 and it moves from one bank to another; that
19 bank is less \$100,000 in the central reserve?

20 MR. FORTIN: But I am talking about the
21 minimum reserve of 8 per cent, which is the non-earning
22 reserve.

23 COMMISSIONER BROWN: I am afraid I don't
24 follow that.

25 MR. McILROY: Would it be clearer
26 to put it this way; if the one bank loses the deposit
27 of \$1000 we have said that it loses \$1000, but we
28 say that in fact it recovers 8 per cent which
29 it had to leave down at the Bank of Canada; in other
30 words, the net loss is 92.



MR. PORTER: Yes.

COMMISSIONER BROWN: I find difficulty in

understanding this because surely if a bank loses a deposit to another bank, it loses the whole of the cash reserve equivalent to the amount of that deposit which it has in the central bank. It doesn't

MR. PORTER: But the point is that it has

held for that deposit is no longer needed, in other words, the minimum reserve, the outstanding part, that is the reserve which it can loan and earn interest on as indicated by the fact that the 8 per cent non-interest bearing no longer has to be kept.

COMMISSIONER BROWN: I think you are a little

confused on this, are you not?

MR. PORTER: This is quite possible.

COMMISSIONER BROWN: Suppose that it is

\$100,000 and it moves from one bank to another, that bank is less \$100,000 in the central reserve?

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say that in fact it receives 8 per cent which

it had to leave down at the Bank of Canada; in other

words, the net loss is 92.



1 COMMISSIONER BROWN: That is right only in the
2 sense of earning capacity.

3 MR. McILROY: That is what we say.

4 COMMISSIONER BROWN: But it loses the whole
5 \$1000 at the Bank of Canada.

6 MR. McILROY: But, in fact, it didn't have
7 the use of the \$1000, it only had the use of \$920,
8 so we say it loses \$1000 and recovers \$80.

9 COMMISSIONER MACKINTOSH: You are saying
10 that it only loses \$920 of the earning assets?

11 MR. McILROY: Right.

12 MR. FORTIN: That is what we tried to say.

13 COMMISSIONER BROWN: I don't quite read it
14 that way; perhaps if you had put in the words "loses
15 the deposit at the Bank of Canada," but you just say
16 it loses the deposit, and as such it doesn't make
17 sense.

18 MR. McILROY: It loses the \$1000 deposit,
19 but it no longer has to retain at the Bank of Canada
20 the \$80 reserve.

21 COMMISSIONER BROWN: But it loses \$1000
22 at the Bank of Canada?

23 MR. McILROY: That is right.
24
25
26
27
28
29
30



MR. MILLER: That is right only in the
 ordinary case.

COMMISSIONER BROWN: But it loses the whole

\$1000 at the Bank of Canada.

MR. MILLER: But, in fact, it doesn't have

the use of the \$1000, it only had the use of \$500,

so we say it loses \$1000 and recovers \$500.

COMMISSIONER BROWN: You are saying

that it only loses \$500 of the earning assets?

MR. MILLER: Right.

MR. BROWN: That is what we had to say.

That is: perhaps it had had in the words "loses

to lose the deposit, and as such it doesn't have

MR. MILLER: It loses the \$1000 deposit.

But it no longer has to retain at the Bank of Canada

the \$500 reserve.

COMMISSIONER BROWN: But it loses \$1000

at the Bank of Canada.

MR. MILLER: That is right.



1 COMMISSIONER BROWN: It loses the whole
2 \$1,000 in the Bank of Canada.

3 MR. McILROY: As we see it, it loses the
4 deposit in that the minimum reserve it must retain
5 there is reduced by \$80, 8 per cent, so there is a
6 net loss in effect of investable assets of \$920 --
7 not a \$1,000. It would not have the right to invest
8 a \$1,000, to use a \$1,000.

9 COMMISSIONER BROWN: I am afraid we are
10 talking about different deposits.

11 MR. McILROY: That could be.

12 COMMISSIONER BROWN: Your answer clarifies
13 that. I certainly did not read that meaning in your text.

14 MR. FORTIN: I must apologize for it, for
15 what I say is bad grammar. That is the intention.

16 COMMISSIONER BROWN: Now, you make some
17 reference to the clearing system.

18 MR. FORTIN: Yes.

19 COMMISSIONER BROWN: Can we ask a question
20 whether you are perfectly satisfied with your
21 participation in the clearing system as such?

22 MR. FORTIN: We would like it a bit cheaper,
23 but we have no particular complaints. The banks give
24 you a quick service and, so far as the mechanics are
25 concerned, it is working all right. I cannot say we
26 have any difficulty about it, nor do we have any
27 representations to make specifically on it.

28 COMMISSIONER BROWN: In connection with your
29 cash and liquidity reserves, there was quite a change-
30 over in 1956 and 1960. It appears on page 58. On the

COMMISSIONER BROWN: Is that the whole

of the Bank of Canada.

MR. MILLER: As we see it, it leaves the

deposit in that the minimum reserve it must retain

there is reduced by \$50,000, so there is a

net loss in effect of investable assets of \$50,000 --

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concerned, it is working all right. I cannot say we

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representations to make specifically on it.

COMMISSIONER BROWN: In connection with your

own and liquidity reserves, there was quite a change-

over in 1936 and 1937. It appears on page 54. On the



1 liability side deposits went down and debentures went
2 up in percentages. That is, if you look at the four
3 years 1957, 1958, 1959 and 1960.

4 MR. FORTIN: More money was obtained by
5 the sale of debentures than was taken by deposits.

6 COMMISSIONER BROWN: Is there any particular
7 reason for this?

8 MR. FORTIN: There may be two reasons for it.
9 One is that there is some difference of opinion as to
10 whether the less costly or easier method of obtaining
11 money is by way of deposit. Some individual companies --
12 two of them at least -- do not believe in taking deposits.
13 Others question what the proportion might be in terms
14 of deposit versus debenture money. That becomes an
15 opinion of management. There may have been a time
16 when it was easier to attract money by way of deposits
17 than by debentures, and vice versa, but I personally
18 do not think there is any significance except that of
19 individual management.

20 COMMISSIONER BROWN: I did not know whether
21 this was a matter of debenture policy in connection with
22 cash and liquidity reserves.

23 MR. FORTIN: I would not think so, but Mr.
24 Taylor may have something to say on this.

25 MR. TAYLOR: I do not think I have anything
26 to add to that. Have any of you gentlemen anything
27 to say?

28 MR. MACKENZIE: One could make more money
29 without term borrowing. As your savings grow you have
30 to keep adding to your bonds portfolio, which does not



liability also deposits went down and debentures went
up in percentages. That is, if you look at the four
years 1927, 1928, 1929 and 1930.

MR. FORTIN: More money was obtained by

the sale of debentures than was taken by deposits

COMMISSIONER BROWN: Is there any particular

reason for this?

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Taylor may have something to say on that.

MR. TAYLOR: I do not think I have anything

to add to that. Have any of you mentioned anything

to say?

MR. MACDONALD: One could make more money

without the borrowing. As your savings grow you have

to keep adding to your funds portfolio, which does not



1 give you quite a spread.

2 COMMISSIONER BROWN: But in the same years
3 there were no changes in the mortgage proportions?

4 MR. FORTIN: Just nominally.

5 MR. MACKENZIE: I would not think there is
6 significance attached to the trend because there is
7 a different approach by different companies to this.
8 I do not think there would be a consistent pattern.
9 In other words, some companies might have increased
10 their demand money percentage-wise as against the
11 general indication of an increase in term money.

12 MR. MACKENZIE: Short term came into the
13 picture also in 1959 and 1960. They did not show in
14 the previous years in the asset part.

15 MR. TAYLOR: Going back over the full period
16 of years shown in the appendix, there is actually
17 a very small change in deposit money from 1928, when
18 it was shown at 17 per cent, as against 23 per cent
19 that applied in 1960. Debentures went up from 45 per
20 cent to 61 per cent during that period.

21 MR. FORTIN: I think you will find also, Mr.
22 Brown, there are some branches of a particular company
23 in which, for some reason, deposits go big and debentures
24 go down, and vice versa, and the attractiveness in
25 either instance depends on the customers in the
26 particular area and their view of it. There are
27 times when it is easier to sell debentures. For
28 example, I would say if you are offering debentures
29 at 6 per cent, I will probably take my deposit out
30 and stick it in debentures.



James Brown

Give you a copy of a speech.

COMMISSIONER BROWN: Let in the same years

there were no changes in the mortgage proportion

MR. BROWN: Just nominally.

MR. BROWN: I would not think there is

a difference attached to the fact because there is

a difference expressed by different countries to this.

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in other words, some countries might have increased

their demand money percentages as against the

general and stable of an increase in term money.

MR. WAGNER: Short term loans into the

picture also in 1959 and 1960. They did not show in

the previous years in the asset part.

MR. TAYLOR: Going back over the full period

of years shown in the appendix, there is actually

a very small change in deposit money from 1958, when

it was shown at 1 1/2 per cent, as against 2 1/2 per cent

that applied in 1950. Depositors went up from 4 1/2 per

cent to 6 1/2 per cent during that period.

MR. BROWN: I think you will find also, Mr.

Brown, there are some branches of a particular company

in which, for some reason, deposits go big and debentures

go down, and vice versa, and the effectiveness in

either instance depends on the treatment in the

particular area and their view of it. There are

times when it is easier to sell debentures.

For example, I would say if you are offering debentures

at 6 per cent, I will probably take up deposit and

and stick it in debentures.



1 COMMISSIONER BROWN: This is what I was
2 getting at. Was there a deliberate policy move to
3 take this money out of deposits, which is subject to
4 chequing privileges, to get it into the longer term?

5 MR. FORTIN: I do not think so. I think
6 it is a move by the depositor himself. Depending
7 on the rate of money he gets he will switch from a
8 deposit to a debenture.

9 COMMISSIONER BROWN: I presume a company
10 induces this by making a differential in rates?

11 MR. FORTIN: They may want to resist it
12 because it is costing them more money.

13 MR. McILROY: In a period of high interest
14 rates, looking at it from the point of view of the
15 investor -- and I am thinking of my own case, in a
16 period of high interest rates when you could get 6 per
17 cent on loan company debentures, the average person
18 with a savings deposit might say: "I won't need that
19 money for three or four or five years. I want to
20 assure myself of the high rate for a period," and knowing
21 that the higher interest rates are not volatile in the
22 debenture field -- they are not subject to change -- then
23 a person who buys debentures is assured of that money
24 for the period of the debentures.

25 THE CHAIRMAN: I think we will adjourn
26 for fifteen minutes now.

27
28 --- Short recess.

29 THE CHAIRMAN: We can now resume.

30 COMMISSIONER GIBSON: Mr. Chairman, I might



COMMISSIONER BROWN: This is what I was

getting at. Was there a deliberate policy move to
take this money out of deposit, which is subject to
certain privileges, to get it into the longer term
market? I do not think so. I think

it is a move by the depositor himself. Depending
on the rate of money he gets he will switch from a
deposit to a loan.

COMMISSIONER BROWN: I presume a company

induced this by making a differential in rates?
MR. FORTIN: They may want to resist it
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cent on loan company deposits, the average person
with a savings deposit might say: "I won't need that
money for three or four or five years. I want to
secure myself of the high rate for a period," and knowing
that the higher interest rates are not volatile in the
debt market -- they are not subject to change -- then
a person who buys deposits is assured of that money
for the period of the deposit.

THE CHAIRMAN: I think we will adjourn

for fifteen minutes now.

--- Short recess.

THE CHAIRMAN: We can now resume.

COMMISSIONER GILSON: Mr. Chairman, I might



1 ask a few questions about the effect of monetary and
2 credit conditions on loan companies. The brief states
3 that your operations may be said to be doubly sensitive
4 to the policies being pursued by the authorities.
5 This is on page 3 where you talk about the whole
6 subject of interest rates. Then you go on to point
7 out that the responsiveness of member loan companies
8 to such policies tends to be delayed because of the
9 medium and long term nature of the mortgage business
10 and because of the time lag between approval of mort-
11 gage loans and the full disbursement of them by the
12 loan companies. Now, I can see that you are much
13 affected by the changes in the rate of interest and
14 in the general credit atmosphere, but I think we would
15 find it very helpful if you could add a little more
16 to this and tell us how high interest rates restrict
17 your operations and your opportunities, if they do,
18 and conversely how lower rates of interest might ~~expand~~
19 expand them.

20 Starting out with rising interest rates,
21 do higher charges for mortgage loans reduce the demand
22 for mortgages much? How does this work?

23 MR. FORTIN: Mr. Gibson, in the periods of
24 high interest rates, to attract money to ourselves we,
25 of course, have to meet the competition and pay more
26 interest to get the money.

27 COMMISSIONER GIBSON: This is on the gathering
28 of the money side?

29 MR. FORTIN: Yes. On the pay-out side
30 we are also subject to the competition of a lot of other



ask a few questions about the effect of monetary and credit conditions on loan companies. The draft states that your operations may be said to be doubly sensitive to the policies being pursued by the authorities. This is on page 3 where you talk about the whole subject of interest rates. When you go on to point out that the responsiveness of money loan companies to such policies tends to be delayed because of the medium and long term nature of the mortgage business and because of the time lag between approval of mortgage loans and the full disbursement of them by the loan companies. Now, I can see that you are much affected by the changes in the rate of interest and in the general credit atmosphere, but I think we would find it very helpful if you could add a little more to this and tell us how high interest rates restricted your operations and your opportunities, if they do, and conversely how lower rates of interest might expand them.

do higher charges for mortgage loans reduce the demand for mortgages much? How does this work?

MR. BOWEN: Mr. Director, in the periods of high interest rates, to attract money to ourselves we, of course, have to meet the competition and pay some interest to get the money.

MR. BOWEN: That is on the gathering of the money itself.

MR. BOWEN: Yes. On the pay-out side we are also subject to the competition of a lot of other



1 lenders who may not have to pay so much for their money.

2 If we have to pay more for our money, we endeavour to
3 obtain more on our mortgage loans. Sometimes that
4 is not always possible because the would-be borrower
5 might be able to get his money at a lower rate of
6 interest, or he may feel that at that price he had
7 better delay his need of the money. For example, if
8 we have to charge 8 per cent, and Joe Dokes says: "I
9 am not going to pay 8 per cent for that money; I don't
10 want it; I will wait," by the same token if he finds
11 a lender to whom the cost of money is less, and he
12 can get the money at $7\frac{1}{2}$ per cent, then the loan
13 company will not get his business. Now, there is
14 a point where the mortgage business freezes up because
15 people are not prepared to pay the price of money for
16 a mortgage loan depending on the use for which they
17 want to put it.

18 You have, of course, a different type of
19 demand in respect of housing loans, commercial loans,
20 existing properties, apartments and all of that type
21 of thing, and you have periods when there is a slackening
22 demand for loans in one area and not in another, and
23 you have a condition where, as so often happens, for
24 example, a life insurance company will be quite pre-
25 pared to make mortgage loans at 7 per cent whereas a
26 loan company will take the position that it cannot
27 lend at less than $7\frac{1}{4}$ per cent. That goes on continuously.

28 COMMISSIONER GIBSON: Which is the cart and
29 which is the horse? Do you look for the mortgage and
30 say "We can get $7\frac{1}{4}$ per cent or $7\frac{1}{2}$ per cent for good



lenders who may not have as much for their money.
if we have to pay more for our money, we endeavor to
obtain more on our mortgage loans. Sometimes that
is not always possible because the well-to-do borrower
might be able to get his money at a lower rate of
interest, or he may feel that at that price he had
better delay his need of the money. For example, if
we have to charge 8 per cent, and Joe Jones says: "I
am not going to pay 8 per cent for that money; I don't
want it; I will wait," by the same token, if he finds
a lender to whom the cost of money is less, and he
can get the money at 7 per cent, then the loan
company will not get his business. Now, there is
a point where the mortgage business freezes up because
people are not prepared to pay the price of money for
a mortgage loan depending on the rate for which they
want to pay it.
You have, of course, a different type of
demand in respect of housing loans, commercial loans,
existing properties, apartments and all of that type
of thing, and you have periods when there is a slackening
demand for loans in one area and not in another, and
you have a condition where, as so often happens for
example, a life insurance company will be quite pre-
pared to take mortgage loans at 7 per cent whereas a
loan company will take the position that it cannot
lend at less than 8 per cent. That goes on continually.
CONGRESSIONAL RECORD: What is the cost and
which is the market? Do you look for the mortgage and
say: We can get 7 per cent or 7 1/2 per cent for good



1 loans, this is attractive to us", or do you go out and
2 bid for more money in order to bring it in first? Do
3 you pay what you have to pay for money and then look
4 for the mortgage loan and see what you can do?

5 MR. FORTIN: I believe it is the demand for
6 mortgage money which calls the tune. If you think you
7 can put your money out at a higher rate on any kind
8 of mortgage, then you go out and try to get the money.

9 COMMISSIONER GIBSON: And if mortgage rates
10 are more attractive you will change your interest
11 rates on deposits in the process?

12 MR. FORTIN: Mind you, it is not altogether
13 so simple. For example, you may have one branch manager who
14 is continually bringing in some kind of business to
15 you, which you look at, and he says "Look, I can put out
16 any money you have at $8\frac{1}{2}$ per cent." Then you make
17 that play, but usually it is upon the demand for
18 mortgage money that the quantum of the mortgage
19 business depends.

20 COMMISSIONER GIBSON: Do your operations
21 tend to be gradually restricted when rates are high?
22 I have been looking at your figures here and it seems
23 to me they have not been rising very rapidly, but they
24 have been rising every year, whether money was easy
25 or money was tight. There are some variations in this
26 but it does not seem as though tight money and
27 high interest rates have restricted your operations
28 very much. If there is an increase in your mortgage
29 business and each year there is an increase in your
30

1 loans, this is attractive to sell, or do you go out and
2 bid for more money in order to bring it in there? Do
3 you pay what you have to pay for money and then look
4 for the mortgage loan and see what you can get
5 MR. FORBES: I believe it is the demand for

6 mortgage money which calls the tune. If you think you
7 can put your money out at a higher rate on any kind
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9 COMMISSIONER GILSON. And if mortgage rates
10 are more attractive you will change your interest
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12 MR. FORBES: Mind you, it is not altogether
13 so simple. For example, you may have one branch manager who
14 is continually bringing in some kind of business to
15 you, which you look at, and he says "look, I can put out
16 any money you have at 6 1/2 per cent." Then you make
17 that play, but usually it is upon the demand for
18 mortgage money that the duration of the mortgage
19 business depends.

20 COMMISSIONER GILSON: Do your operations
21 tend to be gradually restricted when rates are high?
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27 high interest rates have restricted your operations
28 very much. If there is an increase in your mortgage
29 business and each year there is an increase in your



1 liabilities and deposits --

2 MR. FORTIN: I think the practical man will
3 tell you, Mr. Gibson, there have been periods when
4 the loan companies were making few mortgage loans
5 because of conditions.

6 COMMISSIONER GIBSON: You are not talking
7 about tight money. You are talking now about times
8 when it is hard to find mortgage loans, but could we
9 talk about tight money first?

10 MR. FORTIN: The effect of tight money makes
11 it difficult for us to obtain the money at what we
12 might call reasonable rates of interest.

13 COMMISSIONER GIBSON: But it makes the
14 mortgages more attractive too?

15 MR. FORTIN: But you have a point when
16 nobody is going to pay 8 per cent on a five year
17 mortgage because the rate is too high. He delays
18 or postpones the use that he would have put the mort-
19 gage money to, if he had obtained it.

20 MR. MACKENZIE: Our experience has been that
21 you have a falling off in demand when the interest rates
22 are high.

23 COMMISSIONER GIBSON: But you seem to get
24 some additional money to meet the higher demand.

25 MR. MACKENZIE: Oh, yes. As I mentioned
26 before, we paid 6 per cent for term money in August
27 because we had a big backlog of accepted business to
28 process and service, but you usually get the mortgage
29 investments first and then look for the money afterwards
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MR. WICKERMAN: Oh, yes. As I mentioned
before, we paid 6 per cent for loan money in August
because we had a big backlog of accepted business to
pay out and so on, but you usually get the mortgage
investments first and then look for the money afterwards



1 rather than put yourself in too liquid a position with
2 a lot of money not working for you.

3 COMMISSIONER GIBSON: This is a good example
4 of your operations being restricted by a tight money
5 situation?

6 MR. MACKENZIE: Yes.

7 COMMISSIONER GIBSON: You are not going to
8 borrow money at 6 per cent and then lend it out
9 at the current mortgage rate?

10 MR. FORTIN: That is right.

11 COMMISSIONER GIBSON: Do your operations
12 tend to expand when money is easier? Do you not have
13 to compete more vigorously for the mortgages?

14 MR. FORTIN: I think you have a better
15 chance of competing with the insurance companies
16 when conditions are easier. You can get a more
17 competitive rate.

18 COMMISSIONER GIBSON: How about collecting
19 your money? I mean deposits and debentures?

20 MR. FORTIN: There was a long period of
21 time -- it seems a long time ago, when you could get
22 your money at $3\frac{1}{2}$ per cent and you could lend it at
23 $5\frac{1}{2}$ per cent. You have the same spread today when you
24 are paying 6 per cent and charging as high as 8 per
25 cent. There is another point to that. When you get
26 a debenture rate in the 4 per cent category, for instance,
27 it could be through your savings deposits instead of
28 debenture savings.
29
30



1 COMMISSIONER BROWN: May I interject one
2 question here. When interest rates are high, as they
3 are at the moment, do you tend to try to attract money
4 on a very short-term basis? Do you try to borrow
5 for one or two years when the interest rate is high?

6 MR. MACKENZIE: Speaking for my own company,
7 we have 6 per cent across the board, one, two,
8 five years -- take your choice. It is interesting
9 to see how investors go and what proportion of them
10 choose one of each period. Many investors are taking
11 a chance that interest rates will be better next
12 year; others think 6 per cent is historically high
13 and will take the long-term.

14 MR. TAYLOR: I think this indicates that
15 we are a bunch of rugged individuals. Some companies
16 in the last month or two have been offering higher
17 rates for longer terms than for short terms. It is
18 a crazy quilt pattern, though it is probably healthy
19 for the investing public. The public has had ample
20 choice. Some companies have been prepared to borrow
21 at 6 per cent for up to five years, while other
22 companies are prepared to borrow at 6 per cent for
23 only one or two years.

24 MR. NORSWORTHY: That could also vary
25 with commitments you have at higher rates of interest --
26 you could not afford to pay 6 per cent for five years.

27 COMMISSIONER BROWN: I was trying to find
28 out from you what companies were betting on higher
29 rates next year.

30 MR. TAYLOR: We are betting on high rates



1 lasting for a short term. We are only issuing at
2 6 per cent for one or two years; we would not issue
3 beyond two years because of our very strong conviction
4 that we were in an unusually high rate period.

5 COMMISSIONER BROWN: Would you also vary
6 this by being prepared to go to larger amounts over
7 certain years than other years? I understand some companies
8 will place the limit of \$100,000 or \$25,000 on
9 individuals. Do you vary the maximum?

10 MR. TAYLOR: We vary the maximum, but with
11 a ceiling. I think most companies recognize the
12 virtue in having a ceiling, so that we may maintain
13 the position of diversification -- the breadth of
14 choice, this is very important.

15 COMMISSIONER GIBSON: Do you, when money
16 is fairly easy, tend to expand in your operation?
17 Is this a generalization?

18 MR. LECHARTIER: I would say that when
19 money starts to get easy it leads to expansion of
20 operations. We find that when people are squeezed
21 because of having to get a mortgage, they will come
22 to us for their mortgage, and in a period of tight
23 money we receive more demands for loans.

24 COMMISSIONER GIBSON: You have a bigger
25 demand.

26 MR. LECHARTIER: A bigger demand, exactly.

27 COMMISSIONER GIBSON: I take it from what
28 some of you gentlemen have said, it is more difficult
29 and more expensive to get money, and at some point
30 you say: This is enough -- we can't have any more.



1 looking for a short time. It's not only that, but
 2 I've been for one of the years; we would not have
 3 beyond two years because of our city school conviction
 4 that we were in an unusual, if not a rare, period.
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1 Your figures show that you have gone up
2 every year, though not very sharply. I am trying
3 to get the reason for that.

4 MR. LECHARTIER: We can take some short-term
5 money that may even start off at a higher price for
6 one year, and then that can be consolidated at a lower
7 rate for more years.

8 COMMISSIONER GIBSON: You are saying that
9 the demand is very important, and if the demand is
10 there you find the money somehow. Is that a fair
11 statement?

12 MR. LECHARTIER: Yes.

13 COMMISSIONER GIBSON: How about when
14 the demand is not strong, when there is plenty of
15 money available? Do you manage to get it out by
16 reducing the rate or making more favourable terms?

17 MR. MACKENZIE: We don't take it beyond
18 our needs.

19 COMMISSIONER GIBSON: In other words, it is
20 the demand for mortgages to a very large degree that
21 determines the size of your assets and liabilities.

22 MR. MACKENZIE: That is true with our
23 company.

24 MR. CONNOR: You might have to go into
25 short-term bonds if no mortgages were available.

26 MR. TAYLOR: I think Mr. Fortin's answer
27 to that applies to the companies in general. It is
28 the determining factor in the mortgage market.

29 COMMISSIONER GIBSON: It is only when money
30 gets very hard to get that you are really much



1 restricted.

2 MR. MACKENZIE: Money never seems hard to
3 get; it becomes more expensive to get -- you have
4 to pay more for the commodity than the going rate.

5 COMMISSIONER GIBSON: I am thinking of your
6 example, if you have to pay 6 per cent...

7 MR. TAYLOR: This is what I mean when I
8 said this was a question of rugged individualism.

9 MR. MACKENZIE: We have invested all the 6 per
10 cent money we have taken very satisfactorily, and we
11 don't think there is anything injurious in the figure
12 of 8 per cent. People who need the money at the time
13 understand the reason for the change, and the spread
14 between 6 and 8 per cent; it is the same as between
15 3 and 5 per cent, and 4 and 6 per cent.

16 COMMISSIONER GIBSON: Suppose it were between
17 7 and 9 per cent, would there be some point at which
18 it would have to stop.

19 MR. MACKENZIE: We used to think that 9
20 per cent was a very injurious rate, but when you hear
21 of the rates of interest that have been charged on
22 the Continent, we have changed our views about rates.

23 COMMISSIONER GIBSON: You don't look any
24 differently upon a mortgage bearing a high interest
25 rate than one bearing a medium interest rate.

26 MR. TAYLOR: Yes, we definitely do.

27 MR. MACKENZIE: Yes, definitely.

28 COMMISSIONER GIBSON: You feel happier about
29 the one at the lower rate.

30 MR. MACKENZIE: No.



1 MR. NORSWORTHY: At the medium rate.

2 MR. TAYLOR: There is the variance, as this
3 bears out, between the rates of the different companies.
4 One can only speak for his own company: we are loaning
5 at the 7 to $7\frac{1}{4}$ per cent rates.

6 MR. MACKENZIE: Is it because you can't
7 get a higher rate, or do you think a rate beyond that
8 point is injurious? Is there something wrong in a
9 higher rate?

10 MR. TAYLOR: I am not suggesting there is
11 anything wrong. I think the competitive factor
12 dictates the basic lending rate, and the basic lending
13 rate is 7 to $7\frac{1}{4}$ per cent today -- that is the rate
14 at which life insurance companies and trust companies
15 generally have been loaning. To loan beyond that,
16 there is some element of a different type of security
17 involved.

18 MR. MACKENZIE: I can't agree with that.
19 Let us ask the easterners what rate they are paying
20 for borrowing money. I think if they are loaning
21 at 7 to $7\frac{1}{4}$ per cent they are doing so at a loss.

22 MR. CONNOR: Mr. Gibson, what we find
23 is that there is some sort of psychological barrier
24 in the mind of the mortgage borrowing public. You
25 can go to between $7\frac{1}{4}$ and 8 per cent, beyond which
26 they won't go. I cannot see anything wrong with
27 paying 8 or 9 per cent, provided we can loan it out
28 and get the spread. But the demand dissolves at
29 between $7\frac{1}{4}$ and 8 per cent.

30 COMMISSIONER GIBSON: This is a sort of



1 traditional attitude.

2 MR. CONNOR: I can't explain it -- it is
3 the way it is.

4 COMMISSIONER GIBSON: Has it anything to do
5 with the fact that as the interest charge rises the
6 payment increases, and at some point or other people
7 say, "This is too much interest to pay."

8 MR. CONNOR: It must be so. It is perfectly
9 logical that it should be so.

10 MR. FORTIN: You will recall, Mr. Gibson,
11 not too many years ago everybody thought that anything
12 over 3 per cent was sinful.

13 COMMISSIONER GIBSON: No, I don't remember
14 that.

15 MR. FORTIN: Well, I do -- when there was
16 trouble with municipal defaults; a 3 per cent rate on
17 refunding was something every debtor wanted. 3 per cent
18 was the rate then, but it has changed.

19 I think the situation is that there are
20 periods when the rate makes no difference. Then the
21 feeling changes. We have the situation where people,
22 if they want something badly enough, will pay 12 per
23 cent, and other people who say that anything over
24 6 per cent is terrible. That is true of the whole
25 picture.

26 The higher interest rate does not necessarily
27 connote an excess risk. That is why I say that an
28 8 per cent loan is just as good as a 7 per cent loan.
29 But it could be that there is a psychological change
30 that takes place: you are more troubled from the

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1 public attitude towards a high rate. Those cycles
2 come and go. There is a rate beyond which you don't
3 like to charge, even if it is the economic rate.
4 It depends, I think, on the individual lender's
5 concept and purpose for which the loan is made.

6 COMMISSIONER BROWN: Is this concept based
7 on the spread or is it an absolute figure?

8 MR. FORTIN: It is based on your own
9 opinion at the time.

10 COMMISSIONER BROWN: If you could get money
11 at 4 per cent is there something inherently against
12 lending at more than the normal spread of, say,
13 2 per cent.

14 MR. FORTIN: No. If you could get money at
15 4 per cent you probably couldn't lend it at 8 per cent.
16 In other words, the other people in the field operate
17 on the lending rate as well.

18 COMMISSIONER BROWN: So it is competition
19 that makes all the difference.

20 MR. FORTIN: Yes. For instance, if the
21 economic rate was 15 per cent, you would hate to
22 charge it, because there are connotations of moratorium
23 legislation, and one thing and another. The public
24 does not like that kind of thing, and by doing it
25 you are inviting problems. I think apart from the
26 economic rate, you don't like to, shall I say, soak
27 the people.

28 COMMISSIONER GIBSON: This is somewhere around
29 or above the 8 per cent.

30 MR. FORTIN: I don't know what it is. There



1 are times when it is one thing and times when it is
2 another.

3 COMMISSIONER MACKINTOSH: May I interject
4 a question? I am not completely carried along with
5 this theory about squeamishness. Mr. Connor, you
6 spoke about rates: is it not true in your part of
7 the country that people are inclined to think that
8 a rate of 8 per cent is too high and is not likely
9 to be maintained indefinitely?

10 MR. CONNOR: Yes, I believe that is so.

11 COMMISSIONER MACKINTOSH: Is it not
12 true that rather than being some blind feeling that
13 8 or 9 per cent is too high a rate, the higher it
14 gets the greater the expectation that the rate will be
15 lower, that is, if it is in the historically high
16 range?

17 MR. CONNOR: Yes.

18 COMMISSIONER MACKINTOSH: And this will have
19 the effect of flattening out your demand, if you
20 think that next year or within a few months the
21 rate may be down to $7\frac{1}{4}$ per cent.

22 MR. FORTIN: Dr. Mackintosh, it has been
23 indicated to me by lenders of various kinds that they
24 do not like to put on their books mortgage at, say,
25 9 per cent, but there comes a time in the cycle of
26 things when the high rate mortgage causes you trouble
27 with legislators, and that type of situation. There-
28 fore, you prefer to make them at a lower rate. I think
29 you used the word "squeamishness" -- I definitely
30 think that there is a level, but what that level is



1 depends on the views of various people in various
2 places at that time.

3 COMMISSIONER MACKINTOSH: I won't argue
4 with you on your political judgments, Mr. Fortin.

5 COMMISSIONER GIBSON: Is there not some economic
6 basis for this point of view?

7 One has to consider profitability, if it is
8 a commercial mortgage, and income if it is an individual
9 mortgage; when if you get up to 9 or 10 per cent interest,
10 you have to make very cheerful assumptions about income
11 and profits. Is this not
12 one of the reasons why both lender and borrower tend
13 to shy away from the high rated mortgage?

14 MR. FORTIN: It may be in part.

15 MR. TAYLOR: I think it very definitely is.
16 You must bear in mind that about 75 per cent of all
17 the loaning done by loan companies is done on houses
18 of a residential nature, and the burden placed on the
19 home owner is pretty great, with property taxes being
20 what they are, and no relief from income tax as far
21 as far as his mortgage payments are concerned. In
22 those circumstances his mortgage interest rate is a
23 very important factor in his ability to maintain his
24 payments.

25 I don't think it is a question of being
26 squeemish. I think that beyond a certain point it does
27 not become good business, either from his or from
28 the lender's point of view. I think basically we
29 must remember, as loan companies, we are a relatively
30 small segment of the loaning market.

I think it is also fair to say that there is



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small segment of the housing market.

I think it is also fair to say that there is



1 a basic rate at any given time. At the present it
2 is definitely the 7 per cent rate. This is the
3 rate that is dictated largely by others than the
4 loan companies as such.

5 COMMISSIONER BROWN: Are you referring to
6 the N.H.A. rate?

7 MR. TAYLOR: Not directly, but indirectly
8 it is related to the basic interest rate in the
9 country, because it is a question of whether investments
10 are in this or some other channel. It even stems from
11 our Canada bond rate.

12 COMMISSIONER GIBSON: Am I correct in the
13 broad impression I have that when the demand for
14 mortgages is good it would tend to increase your
15 assets and liabilities, even though this means tight
16 money; and when it is not so strong, you may be less
17 successful.

18 You see, this is almost the reverse
19 of what the monetary authorities are trying to do,
20 if you see what I am trying to get at.

21 MR. MACKENZIE: Could you re-phrase that
22 question?

23 COMMISSIONER GIBSON: You give me the
24 impression that when there is good demand for mortgages,
25 somehow or other you try to find the money to meet
26 that demand, and you are much more aggressive in
27 obtaining that money. In other words, a tight money
28 situation with high interest rates may not restrict
29 your activities. The figures show that each year you
30 had a larger volume over recent years. That situation



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1 may restrict your activities against what they might
2 otherwise have been. But this is a hard matter to
3 demonstrate, how much they are affected.

4 MR. MACKENZIE: In other words, what the
5 Bank of Canada would like to do and tries to do by
6 way of fixing interest rates does not affect or restrict
7 our activities?

8 COMMISSIONER GIBSON: I am asking you that
9 question?

10 MR. MACKENZIE: That is probably so. We
11 have always been a fairly conservative company, and
12 at a period when interest rates were high, when we
13 had to pay a high rate for debenture money, we would
14 just go out of business and digest what we had; in
15 other words, we would go through a period when we
16 would live on our investments. But that is not a
17 policy that you can maintain today. Every company
18 tries to be a little bigger and better each year.
19 Bigness seems to be important today, and one is always
20 fighting to make sure that the growth he has is a
21 healthy one.

22 But added to this is the fact that your
23 debenture investment is coming due all at one time;
24 you have to maintain those to maturity; you have to
25 meet them with a competitive rate. It is not necessarily
26 good to pay 6 per cent for new dollars for investment
27 in old debentures, but you hold them ---

28 COMMISSIONER GIBSON: You hold your own
29 position.

30 MR. MACKENZIE: Yes.

may restrict your activities against what they might otherwise have been. But this is a hard matter to demonstrate, but much they are affected.

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other words, we would go through a period when we would live on our investments. But that is not a policy that you can maintain today. Every company tries to be a little bigger and richer each year.

Business seems to be important today, and one is always trying to make some thing and grow. He has to be healthy one.

I am asked to this is the fact that you

occasional investment is coming but all at one time;

you have to maintain these to maintain; you have to

meet them with a conservative man. It is not necessarily

good to say a year ago for now believe for investment

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COMMISSIONER GIBSON: You hold your own

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Mr. Macmillan: Yes.



1 MR. TAYLOR: I think this argument shows
2 that we are a bunch of individuals. In the case of
3 my company, in a period of high interest rates our
4 loaning is curtailed because we can't afford to
5 borrow debenture money at 6 per cent, for instance,
6 and lend it at the basic loaning rate of 7 or $7\frac{1}{4}$ per
7 cent.

8 So, I can't agree that all loan companies
9 lend more heavily in a period of high interest rates.
10 I know one company that it does not apply to.

11 MR. MACKENZIE: It doesn't apply to our
12 company. Our activities have not been as great this
13 year as last year.

14 MR. LECHARTIER: In 1957 we believe that the
15 rates were high and we slowed down, but we found out
16 at the end of the year that all our competitors had
17 loaned much more than we had.

18 MR. CONNOR: We find in the east when money
19 is more expensive we have to slow down our operations,
20 but it does not become very effective until it gets
21 up near the roof level.

22 COMMISSIONER GIBSON: If you are not pushing
23 against the roof, so to speak, and demand is good,
24 and interest rates are fairly high, and you haven't
25 an extreme stringency, and do not have to pay 6 per
26 cent for your money, you will be expanding.

27 MR. CONNOR: Yes.

28 COMMISSIONER GIBSON: You will agree to
29 that.

30 MR. CONNOR: Yes.

MR. WILSON: I think this argument shows that we are a bunch of individuals. In the case of my company, in a period of high interest rates our borrowing is curtailed because we can't afford to borrow debenture money at 6 per cent. For instance, we lend it at the basic borrowing rate of 7 or 8 per

cent. I can't agree that all loan companies lend more heavily in a period of high interest rates. I know one company that it does not apply to.

MR. WASHINGTON: It doesn't apply to our company. Our activities have not been as great this year as last year.

MR. WASHINGTON: In 1967 we believe that the rates were high and we allowed them, but we found out at the end of the year that all our competitors had borrowed much more than we had.

MR. CONNOR: We find in the east when money is more expensive we have to slow down our operations, but it does not become very restrictive until it gets to near the roof level.

COMMISSIONER GIBSON: It just was not passing against the roof, so to speak, and demand is good, and interest rates are fairly high, and you haven't an extreme stringency, and do not have to pay 6 per cent for your money, you will be expanding.

MR. CONNOR: Yes.

COMMISSIONER GIBSON: You will agree to



1 COMMISSIONER GIBSON: We have been talking
2 about interest rates -- what about the question of
3 terms? How about the variation in terms of mortgage
4 lending? Is there much variation as between times
5 when you are really looking for business and times
6 when other people are trying to get you to lend money
7 to them?

8 MR. TAYLOR: You mean the repayment privileges?

9 COMMISSIONER GIBSON: Yes; and in the
10 amount of appraisals, and in the proportion of cases
11 where you go up to two-thirds. In other words, if
12 people are coming to you looking for money, are your
13 terms a bit stiffer than they would be if you were
14 looking for mortgage business?

15 MR. TAYLOR: Yes. I don't think that
16 the appraisal value varies appreciably, because it is
17 done by a man who is professionally trained. We
18 have dealt with that question. It is a competitive
19 position.

20 COMMISSIONER GIBSON: We talk about
21 competition between companies. How about it at a
22 time when there is good demand for mortgages, against
23 the time when demand is not very strong and you are
24 out for business?

25 MR. TAYLOR: I think the same should
26 apply. There should not be a variation between the
27 two periods, and I don't think there is with a
28 qualified appraiser. I do think there can be a
29 difference in pre-payment privileges that are offered.
30 For the loaning of up to two-thirds, I think competition



COMMISSIONER CLARK: We have been talking

about interest rates -- what about the question of
terms? How about the variation in terms of mortgage
lending? Is there much variation as between times
when you are really looking for business and times
when other people are trying to get you to lend money
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COMMISSIONER CLARK: Yes; and in the

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For the lending of up to two-thirds, I think competitive



1 has taken most of the companies to the two-thirds
2 loaning level pretty generally.

3 COMMISSIONER GIBSON: Just automatically?

4 MR. TAYLOR: Too close to being
5 automatic for the liking of us.

6 MR. MACKENZIE: We have resisted two-
7 thirds. We have held to the 60.

8 I can't agree altogether with what
9 Mr. Taylor has said. Some companies do put pressure
10 on their branch managers; they give them quotas
11 and they expect them to place that much money. That
12 is why there is the difference in values and in
13 rates.

14 Bigness seems to be more important than
15 the net return on the investment. I think that may
16 explain why there is a variance in rates between
17 various companies.

18 This suggestion of 7 or $7\frac{1}{4}$ per cent
19 being the prime rate, that may be true of the life
20 insurance companies, but it is not the prime rate for
21 people in our field. I don't think at any time the
22 loan companies and trust companies can compete with
23 the insurance companies. I think the insurance companies
24 borrow money on longer terms and at cheaper rates.
25 There is nothing to stop the life insurance companies
26 from loaning at $6\frac{1}{2}$ per cent today. They would still
27 make a good return, compared to the rate they make on
28 their bond portfolio.

29 COMMISSIONER GIBSON: You would say then
30 that a company like your own, for example, might charge

has taken most of the companies in the two-thirds

floating level pretty generally.

COMMISSIONER GIBSON: Just automatically?

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people in our field. I don't think at any time the

loan companies and bank companies can compete with

the insurance companies. I think the insurance companies

borrow money on better terms and at shorter rates.

There is nothing to stop the life insurance companies

from loaning at 6 per cent now. They would still

have a good return, compared to the rate they make on

their bond portfolio.

COMMISSIONER GIBSON: You would say then

that a company is not only for itself, which



1 a bit higher rate than another company, but you
2 might only give 60 per cent of the loan, and you might
3 give a different appraisal.

4 MR. MACKENZIE: No. We don't put our
5 managers under pressure to find so much business.
6 We take the business at the rate which we think is
7 profitable to us. We turn down the business that we
8 don't feel is first class business. We have resisted
9 mortgages at $7\frac{1}{2}$ per cent because we don't think it
10 is good business.

11 COMMISSIONER GIBSON: You don't send
12 your fellows out the way that has been described here.

13 MR. MACKENZIE: Absolutely not.

14 COMMISSIONER GIBSON: But this is part
15 of the framework of competition in business.

16 MR. MACKENZIE: We all have our friends
17 in business -- people who have been coming to us
18 for a hundred years. That is where your business
19 develops from for the most part.

20 COMMISSIONER GIBSON: Now, the form of
21 term can be varied. This is a lag between the approval
22 of the mortgage and the disbursement of the funds.
23 Does this tend to be increased or decreased with the
24 state of business?

25 MR. MACKENZIE: Do you mean on new
26 construction, for example, where you have made commit-
27 ments and it won't be taken up for a year?

28 COMMISSIONER GIBSON: Yes. You try
29 to stretch it out when money is fairly tight.

30 MR. MACKENZIE: We get it out as fast as



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Toronto, Ontario

1 we can where we are dealing with a large project and
2 the money won't be needed until next year. We have
3 to make provision for that and invest the money
4 on a short term until it will be taken up.



...dealing with the large project and
...I do need to work on it soon. We have
...also provision for that and invest the money.
...a short term until it will be taken up.



1 COMMISSIONER GIBSON: Conversely, if there
2 is lots of money around you try to get the money out
3 as fast as you possibly can after the approval?

4 MR. MACKENZIE: Absolutely.

5 COMMISSIONER GIBSON: There would be a
6 difference, though, wouldn't there, or would there
7 be a difference?

8 MR. MACKENZIE: I am afraid I have lost you.
9 In the rate or the terms?

10 COMMISSIONER GIBSON: No, in your efforts
11 to put money out. If there is a shortage of funds,
12 do the people that you are lending money to, do they
13 tend to try to spread the work out, the work that
14 they have approval for, and thus make it last longer,
15 to use your funds more slowly?

16 MR. MACKENZIE: That doesn't affect us to any
17 degree at all. In our particular operation we haven't
18 been doing that; I think possibly 5 per cent of our
19 mortgage commitments are on new construction, or
20 conversion loans. We prefer not to advance funds
21 on progressive estimates. It is our idea not to do
22 that. We like to feel that the borrower can do
23 his temporary financing and come to some completion.

24 COMMISSIONER GIBSON: Now, how about the
25 cash and liquidity position in relation to the business
26 and credit conditions, monetary conditions; do you
27 have some minimum standards of cash and liquidity
28 for your whole operations below which you will not go?
29 I have looked at your figures again here

30 and there doesn't seem to be a great variance



COMMISSIONER GIBSON: Conversely, if there

is lots of money around you try to get the money out

as fast as you possibly can after the approval

MR. WACHSMAN: And then

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difference, though, wouldn't there, or would there

be a difference?

MR. WACHSMAN: I am afraid I have lost you.

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do the people that you are lending money to, do they

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on progressive enterprise. It is our idea not to do

that. We like to feel that the borrower can do

his temporary financing and come to some conclusion.

COMMISSIONER GIBSON: Now, how about the

cash and liquidity position in relation to the business

and credit conditions, monetary conditions; do you

have some minimum standards of cash and liquidity

for your whole operation and how much you will not get

I have looked at your figures again here

and there doesn't seem to be a great variation



1 from year to year in your holdings of liquid assets.
2 The ratio of liquid assets to total assets has shown
3 some modest gradual decline over the period. Your
4 thinking about this is that you let your liquidity
5 down when the demand is strong, and if this is so,
6 how far do you go?

7 MR. TAYLOR: I don't think so; I would think
8 each company has its own standard that applies
9 constantly, there is no variance in that standard of
10 liquidity and, indeed, the reserves kept, I would think,
11 by each member company are very considerably above
12 statutory requirements, and I think that this is
13 borne out by these figures.

14 COMMISSIONER GIBSON: Yes, but the statutory
15 requirements which you are referring to are the
16 requirements in connection with deposits, is this
17 not correct, and you do give these figures, but if
18 you look at all your assets including your mortgages
19 and look at your liquid items, your cash, short-term
20 securities, government bonds, does this sum of
21 liquidity bear any fairly fixed ratio or is there any
22 lower level of that liquidity ratio that you pretty
23 well will not go below?

24 MR. TAYLOR: I am not sure I have the
25 question sufficiently firm in mind. I think we all
26 have a liquidity ratio below which we will not go.

27 COMMISSIONER GIBSON: Does this only apply,
28 in your thinking, to the funds that come from your
29 deposits?

30 MR. TAYLOR: No, I think it applies to all

from year to year in your holdings of liquid assets.
The ratio of liquid assets to total assets has shown
some modest gradual decline over the period. Your
thinking about this is that you let your liquidity
down when the demand is strong, and it is to
how far do you go?

MR. TAYLOR: I don't think so; I would think
each company has its own standards and applies
consistently; there is no variation in that standard of
liquidity and, indeed, the reserves kept, I would think,
by each member company are very considerably above
secondary requirements, and I think that this is
borne out by these figures.

COMMISSIONER GILSON: Yes, but the secondary
requirements which you are referring to are the
requirements as connected with deposits, is this
not correct, and you do give these figures, but if
you look at all your assets including your long-term
and look at your liquid assets, your cash, short-term
securities, government bonds, does this sum of
liquidity bear any really fixed ratio or is there any
low level of that liquidity ratio that you pretty
well will not go below?

MR. TAYLOR: I am not sure I have the
question sufficiently clear in mind. I think we all
have a slightly radio below which we will not go.
COMMISSIONER GILSON: Does that only apply

in our thinking, to the funds that come from your
deposits?
MR. TAYLOR: Yes, I think it applies to all



1 borrowings from the public; I think it applies very
2 definitely to all borrowings from the public.

3 MR. MACKENZIE: It is apparently related
4 to your savings.

5 MR. TAYLOR: Yes.

6 COMMISSIONER GIBSON: This point came up
7 in the brief; it is related quite a lot to the ratio
8 of quick assets to your deposits, but you don't say
9 much, if anything, about the ratio of this to your
10 mortgage ---

11 MR. TAYLOR: The reason it is brought out
12 in that way is because the statutory requirements
13 relate to demand money, but I think we must answer
14 your question by saying there is a liquidity minimum
15 that applies to all borrowings from the public.

16 COMMISSIONER GIBSON: What sort of a minimum
17 is that?

18 MR. TAYLOR: I think that varies among the
19 companies.

20 MR. MACKENZIE: Let us say that the liquidity
21 is possibly more than necessary to meet the deposit
22 requirements.

23 COMMISSIONER GIBSON: Does it vary from
24 year to year under this?

25 MR. MACKENZIE: I think it can vary depending
26 on a demand for mortgage money. You quite often will
27 find that you have been putting all your dollars in
28 mortgages and then you start to build up your liquid
29 position again. Sometimes it is not easy to keep
30 it in the exact balance which it was the year before.

...the public; I think it applies very

definitely to all knowledge from the public.

MR. JACKSON: It is, however, related

to your savings.

MR. TAYLOR: Yes.

COMMISSIONER LARSON: This point came up

in the public; it is related to a lot of the public

of your assets to your knowledge, but you can't say

that, if anything, about it is to be of this to your

knowledge --

MR. TAYLOR: The reason it is brought out

in that way is because the attorney's knowledge

relates to demand money, but I think we must answer

your question by saying there is a right to know

that applies to all knowledge from the public.

COMMISSIONER LARSON: What sort of a minimum

MR. TAYLOR: I think that would mean the

minimum.

MR. JACKSON: Let me say I am not sure

is possible more than necessary to meet the deposit

COMMISSIONER LARSON: Does it say that

year to year when this

MR. JACKSON: I think it is very important

and demand for money, and you can't say that

find that you have been paying off your debts in

money, and then you can't say that you have

position exist. Sometimes it is not easy to keep

in the exact balance which is the year's balance.



1 COMMISSIONER GIBSON: But you don't think
2 in terms of the percentages in this?

3 MR. MACKENZIE: Not as an exact thing, no.

4 COMMISSIONER GIBSON: Do individual companies
5 have a percentage they bear in mind here?

6 MR. MACKENZIE: It could be.

7 COMMISSIONER GIBSON: Were you going to say
8 something?

9 MR. LECHARTIER: In most cases it is because
10 we always know in advance what amount we will have
11 to pay.

12 COMMISSIONER GIBSON: It is like the mortgage
13 and debenture section?

14 MR. LECHARTIER: Exactly.

15 MR. NORSWORTHY: I believe there is a point
16 on this in Section 86, page 42.

17 COMMISSIONER GIBSON: Which is the particular
18 point?

19 MR. NORSWORTHY: This matter of reserves;
20 we feel that we should have the privilege of increasing
21 the annual deduction of one-half of one per cent
22 rather than one-quarter of one per cent.

23 COMMISSIONER GIBSON: Yes, I appreciate that,
24 but I was trying to get at your thinking in terms of
25 liquidity; this is really a different question.

26 COMMISSIONER BROWN: Could I ask something?
27 You say that you keep this in mind when your reports
28 to the Ontario people are just twice a year, so
29 presumably you make sure that the half yearly figure
30 is all right; is this watched monthly or weekly or



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of the Commission in this

MR. MANNING: Not at all, no.

COMMISSIONER GIBSON: Do individual companies

have a percentage they fear to mind here?

MR. MANNING: It could be.

COMMISSIONER GIBSON: Were you going to say

something?

MR. MANNING: It would depend if the person

we speak know in advance what amount we will have

COMMISSIONER GIBSON: It is like the mortgage

and determine security

MR. MANNING: I would.

MR. MANNING: I believe there is a point

on this in Section 5, page 40.

COMMISSIONER GIBSON: Which is the particular

MR. MANNING: I am member of research

we feel that we really have the privilege of interesting

the annual collection of material of the law case

rather than comparison of the law case.

COMMISSIONER GIBSON: Yes, a question only.

But I was trying to get a point coming in terms of

liquidity; this is really a different question.

COMMISSIONER GIBSON: I am somewhat?

You say that you keep this in mind when you report

to the Ontario people and that is a yes, so

presumably you make sure that all the really figures



1 watched all the time?

2 MR. MACKENZIE: I don't mean to convey
3 the suggestion that I say our liquidity position is
4 always considerably more than is required for
5 deposits. I don't think there is any restriction.
6 I think if a company wanted to invest \$99 of every
7 \$100 it had in term money in mortgages, I don't suppose
8 it would be criticized as long as it kept its liquidity
9 position for its depositors. It doesn't work out
10 that way, of course, is that correct?

11 MR. FORTIN: Yes. Before the war, Mr. Brown,
12 there used to be a quarterly report to the Department
13 in Ontario. If the so-called percentage of liquidity
14 gets very high, then you may question whether that
15 loan company is doing its proper job; namely, making
16 mortgage loans, but in the everyday to day operation
17 the company must know -- and does know -- the flow
18 of money coming into it for interest and principal
19 repayments as well as those companies who issue
20 debentures across the counter, and the amount of money
21 which it will have to meet as well as its operating
22 expenses, and what it requires to cover the whole
23 gamut of its operations is the cash requirement, and
24 that will fluctuate by seasons and from day to day
25 depending on how hectic things are, but it will be
26 more in total than the mere 20 per cent of deposits
27 required by the legislation. Whether it is 25 or
28 30 becomes pretty well a matter of opinion of the
29 management and the nature of the mortgage business
30 and the nature of its borrowings that that particular



1 company is doing. Now, that will vary from day to
2 day, but it will never be below the 20 per cent
3 of deposits.

4 MR. TAYLOR: Let me say that the typical
5 company would have to compare with the statutory
6 liquid requirements their own directors' liquid
7 requirements, which would be very considerably higher
8 and which would be applied once a week. This is
9 certainly the situation in our own company; once a
10 week we apply what we call our own liquidity requirements,
11 which are very substantially higher, and actually this
12 would be the typical practice.

13 COMMISSIONER GIBSON: I can see that you put
14 your deposit business and your liquidity position here
15 in a particular position, and this is partly because of
16 the statutory requirements involved, but the thing
17 I am not clear on is in addition to this you have a
18 lot of money on a debenture and a note basis and this
19 is invested mostly in mortgages. Some of this money
20 is taken on a one-year basis and some is taken on a
21 five or six-year basis, and some on an even longer
22 basis; doesn't the term of the money which you are
23 taking bear on the amount of liquidity which you keep
24 in this other business?

25 MR. TAYLOR: It does in our case very
26 definitely. We have a different liquidity percentage
27 applied to each type of borrowing; we have a different
28 liquidity percentage that applies to each type of
29 asset which we have against that borrowing.

30 COMMISSIONER GIBSON: I see. You try to

company in 1941. But, that was the only way to

and, but it will never be more than 10 per cent

of corporate.

MR. TAVEL: Let us say that the typical

company will have to deal with the statutory

liquidation provisions that are contained in

legislation which would be very considerably higher

and which would be a lot more than a year. This is

perhaps the situation in our own country. Once a

week we apply what we do in our own liquidation provisions

which are very substantially higher, and actually this

would be the type of practice.

MR. TAVEL: I am sure that you are

your domestic business and your financial position here

in a position to stand, and that is partly because of

the strong governmental involvement and the strong

I am not sure as to the situation in Japan. You have a

lot of money on a day basis and a lot of money and this

is involved mainly in the day and night of the money

is more or less a day basis and some in terms of a

five or six-year period, and some in terms of even longer

periods. Some of the time it will be in the day and

taking down on the amount of the time which you have

in this other situation.

MR. TAVEL: Is there in your own

domestic situation, is there a situation in which you have

applied to the same situation? We have a different

with the same type of situation as you have

said, which is the same situation as you have

mentioned in your own situation.



1 match these things in a broad sort of way?

2 MR. TAYLOR: I can only speak again
3 for one company, but we have a very detailed break-
4 down once a week applying a liquidity percentage to
5 each type of asset and each type of borrowing, and
6 it varies. There is a different percentage which
7 applies to your debentures from that which applies
8 to your deposits. There is a different percentage
9 that applies to a five-year debenture as against a
10 two-year.

11 COMMISSIONER GIBSON: And you would
12 gradually increase the amount of money which you are
13 getting on one-year debentures and you would keep a
14 somewhat higher position?

15 MR. TAYLOR: Yes.

16 MR. NORSWORTHY: There is another point
17 also; it must not be overlooked that a great number
18 of repayments are on a monthly basis.

19 MR. MACKENZIE: Yes.

20 MR. TAYLOR: And commitments, of course,
21 must be taken into account because we have to make
22 forward commitments.

23 COMMISSIONER GIBSON: You wouldn't say
24 there is any standard practice in this?

25 MR. TAYLOR: I wouldn't think so.

26 COMMISSIONER GIBSON: There are
27 significant differences between company and company?

28 MR. TAYLOR: That would be my impression.

29 THE CHAIRMAN: I understood you to say,
30 Mr. Mackenzie, that the mortgages that you take are



1 entirely on existing houses?

2 MR. MACKENZIE: In the main they are.
3 Years ago we were in the housing business, for example,
4 and we withdrew from that field in the early stages
5 of the war, in 1940 or 1941 and never went back in,
6 and most of the residential building -- I think a
7 good portion of it -- in the last 15 years has been
8 under Central Mortgage and Housing, and so we haven't
9 participated in that. We do finance new construction
10 from time to time but it is usually on a completion
11 basis.

12 THE CHAIRMAN: Well, we have had certain
13 representations from time to time as to extending the
14 provisions of the N.H.A. to existing houses to give
15 the owners of existing houses the same subsidies --
16 I suppose you could call it -- which they get under
17 the regular N.H.A. mortgage. Would you care to comment
18 on that, looking at the situation as a whole and not
19 only from the point of view of your own company; would
20 you say that generally speaking the demand for mortgages
21 on existing houses is adequately met?

22 MR. MACKENZIE: I would prefer not to
23 be the spokesman on that subject; this is one which
24 we have given considerable thought to and I think
25 that perhaps Mr. Fortin could express the views of
26 our group.

27 MR. FORTIN: Well, Mr. Chairman, as the
28 brief indicates the loan companies are opposed to the
29 extension of the Act for the reasons set out in the
30 brief. On a broader basis, as we seek to put forward



1 in the brief, an agitation has been going on since
2 about 1953 and there have been a lot of differences
3 of opinion about it, and essentially the idea is that
4 if an existing house could be financed by N.H.A.
5 you would be able to sell more new houses because
6 there are people who will not buy a new house if they
7 have to take back paper from the sale of the existing
8 house. We recognize there will be those cases, but
9 we do not think that they are anywhere as
10 voluminous as one might suspect and we think that with
11 the very relatively small down payment required under
12 the N.H.A. that there will be very few cases where the
13 amount of cash resulting from the sale of an existing
14 house will be insufficient to put down as the cash payment
15 for a new N.H.A. house.

16 There are other difficulties because
17 the financing of an existing house by an N.H.A.
18 mortgage may well mean a method by which the owner
19 is enabled to re-finance an existing mortgage and
20 with the proceeds buy a motor boat or take a trip to
21 Europe; in other words, to capitalize the excess.
22 There seems also to be no reason why the government
23 should be called upon, or the taxpayer should be called
24 upon to enable an investor in a house to recover his
25 investment. It would be nice if the government would
26 do so in respect of common stock investments, for
27 example. While a house is a utility, it is also an
28 investment and we don't believe that the idea of the
29 government should be such that it would enable the
30 investor in housing to take his money out because of the



1 higher ratio on mortgage loans or should he be able
2 to take the profit which has accrued between the
3 original cost of the house and the inflation in house
4 prices.

5 There is the viewpoint that this is
6 very difficult for the person who wants a big house
7 and who has a big family. There are relatively few
8 newer houses being built of that size and consequently
9 that person must look to the existing houses as a means
10 of housing his big family. Because of the pattern
11 of financial lending being limited today to two-thirds
12 it means that there may well be room or may be cause
13 for some of the more or less shabby practice of
14 bonusing and what has taken place in the second mortgage
15 field.

16 Taking it all together, I think the big
17 question depends on the philosophy behind it. If you
18 believe, as was originally the case, that
19 that the purpose of the original Dominion Housing Act
20 was to add to the fund of housing, namely, to limit
21 it to new housing, and more latterly to that has been
22 added the thought that new housing is the vehicle through
23 which employment is given both directly and indirectly,
24 and consequently under present conditions of stress,
25 even our government is feeling that if
26 you divert money from the financing of new housing
27 to the financing of the existing house that you
28 will cause less money to flow into new housing for a
29 period of time, and that means that you will not be
30 able to fight against unemployment to the same extent.



1 We as loan companies have taken the position, which
2 we believe is sound, that through the encroachment
3 of government in the housing field we gradually have
4 had our type of business taken away from us.

5 We think there is one reason why we might
6 suffer, and that is to provide new housing to people
7 who have not got any, but if it comes merely to re-
8 financing of existing housing, then we do not think
9 public funds should be used for that purpose. In
10 essence that is our position.

11 THE CHAIRMAN: I think that it is rather
12 difficult to assess the various factors you have
13 mentioned, but it seems the problem gets down to
14 this, and it is very simple, and this applies to
15 N.H.A. houses that are already built. Since they
16 are built they are in the category of existing houses
17 that were built before the days of the N.H.A. Are
18 there adequate market facilities for houses generally?

19 MR. FORTIN: We believe there is.

20 THE CHAIRMAN: That seems to me to be the
21 main part. Are houses made sufficiently marketable
22 under the present facilities of your companies and
23 trust companies and other institutions that are engaged
24 in the housing field?

25 MR. FORTIN: I think, Mr. Chairman, that
26 we still have a good housing market today and one
27 must conclude that, taking Canada across the board,
28 it is in a pretty healthy state. The main index is
29 the volume of unsold new housing. It is just about
30 the same as it was at this time last year. There is



1 nothing startling in it. Admittedly there are areas
2 where there may be a surplus and areas where housing
3 is tight, but it has not been too impossible to sell
4 a new house.

5 I believe we suggested in the brief that
6 there is perhaps one difficulty, namely, that the
7 ability of the owner of an existing house to sell it
8 is perhaps not so much the method of finance as agree-
9 ment on price. The price may be too high in a parti-
10 cular locality and consequently I think we would be
11 prepared to agree that it has not been as easy to
12 sell new houses in the last few years as it was a few
13 years back. Neither is it easier to do a lot of other
14 things but with the large volume of new starts
15 and the volume of completed and unoccupied houses,
16 in our opinion, the market is not out of the way.

17 THE CHAIRMAN: One of your recommendations
18 is that the borrowing ratio be increased from $12\frac{1}{2}$ times
19 the cash and reserves to 15 times.

20 MR. FORTIN: That reflects a request we
21 made some years ago to the supervisory authority to
22 have the 15 times rate. Fifteen times the paid-up
23 cash and reserves is the formula. We felt that with
24 all the limitations, restrictions and conditions
25 applying to our business that a ratio of 15 times is
26 not risky.

27 We recognize that limit arose from the desire
28 of the original legislators to protect the depositors
29 and debenture holders against excessive borrowing. We
30 were unable to convince the authorities that the 15 times



1 ratio was the better one to adopt. It was ten times,
2 and what happened was we split the difference and it
3 was made $12\frac{1}{2}$ times. We are still of the view that a
4 15 times limit would not be uncalled for considering
5 the nature of our business and all the restrictions
6 and so forth. We believe that if we had that 15 times
7 then we could service the mortgage market still better.
8 I think our capital structure and reserves will support
9 that figure.

10 THE CHAIRMAN: The average of the industry
11 now is about eight times.

12 MR. FORTIN: Well, it is not perhaps quite
13 that simple.

14 THE CHAIRMAN: I realize this is an average
15 and therefore there might be some companies nudging
16 the upper level, but the average is about eight times.

17 MR. FORTIN: For example, in arriving at
18 the formula what we do is add to the published reserves, the
19 internal reserves, and this is reduced by the difference
20 between market value and book value of your security
21 holdings, and take off the mortgage reserves. This makes
22 it very difficult to say that if you apply the borrowing
23 to what appears in the published statement it is
24 not necessarily eight or 12 times, but there are some
25 companies which, because of the different nature of
26 their business, do not quite fit into that pattern.

27 COMMISSIONER BROWN: What is the range now?

28 MR. FORTIN: I think we have some companies
29 which are getting pretty close to the $12\frac{1}{2}$ times, and
30 some are considerably below it.



1 COMMISSIONER BROWN: In respect of figures
2 on that, have you got a range? What is the maximum?

3 MR. NORSWORTHY: You mean the average company
4 here?

5 COMMISSIONER BROWN: There must be some
6 companies above that and some below it, if that is
7 the average.

8 MR. LECHARTIER: Ours is two times our
9 cash reserves, but I must say our position is slightly
10 different to the others in this question. We do not
11 take deposits. We borrow money on bonds, and we
12 have been able to get some special **privileges from** the
13 Quebec provincial government, including the fact that
14 our bonds are accepted as trustee bonds in the province
15 of Quebec, and we feel there is an obligation upon
16 us to the bond holders and to the public to keep all
17 the guarantees which were offered at the time when the
18 bonds were placed. So far as our corporation is
19 concerned we strongly oppose the raising of the $12\frac{1}{2}$
20 times ratio.

21 MR. MACKENZIE: In the case of Canada
22 Permanent I think we can grow another \$100 million
23 before we expand our capital. We are well within
24 the $12\frac{1}{2}$ times ratio.

25 MR. CONNOR: We were so close to it this
26 summer that we had to issue new stock, but by doing
27 that now we have dropped to eight or nine times.

28 COMMISSIONER BROWN: To what extent has
29 this been offset by the companies that are near
30 the ceiling by increasing their capitalization?



1 MR. FORTIN: They have to stop taking
2 deposits and selling debentures, or they have to
3 increase their capitalization. It does not happen
4 every year. I have forgotten when it was done. Was
5 it five years ago?

6 MR. MACKENZIE: Four years, in 1958.

7 COMMISSIONER BROWN: I did not hear part
8 of the answer.

9 MR. FORTIN: You increase your capital or
10 plough in more earnings.

11 COMMISSIONER BROWN: The other thing which
12 enters into this question of the reserves is the request
13 on the other side to have your reserves on mortgages
14 increased to 6 per cent on the basis
15 of $\frac{1}{2}$ per cent per year. These are rather contra-
16 dictory ideas. On the one side you say you can afford
17 to go up to the 15 times ratio and on the other you
18 say you need more reserves. What are your reserves now?

19 MR. FORTIN: Mr. Brown, the

20 The Income Tax Act ~~does not~~ stipulates

21 stipulates an amount equal to 3 per cent
22 of the mortgage portfolio exclusive of any NHA mortgages
23 or real estate acquired through foreclosure. That
24 is the amount deferred so far as payment to Ottawa
25 is concerned. As your mortgage portfolio is reduced you
26 must bring back the reserve set up on the amount of reduction
27 into income / and pay the tax to Ottawa. It is not a reserve against
28 which you may write off losses. It is a deferment
29 of tax. It is unlike the reserve authorised by the Act
30



MR. ROBIN: The same as when taking

deposits and selling debentures, or they have to
increase their contribution. It does not happen
every year. I have forgotten when it was done. Was
it five years ago?

MR. WALKER: Four years, in 1961.
COMMISSIONER BROWN: I did not hear you

of the answer.

MR. ROBIN: You increase your capital or

plough in more earnings.

COMMISSIONER BROWN: The other thing which

enters into this question of the reserves is the request
on the other side to have your reserves on mortgage
increased to 5 per cent on the basis
of 1 per cent per year. These are rather contro-
versial ideas. On the one side you say you can afford
to go up to the 15 times ratio and on the other you
say you need more reserves. What are you reserved now?

MR. ROBIN: Mr. Brown,

The Income Tax Act

regulates an amount equal to 5 per cent

of the mortgage portfolio exclusive of any FHA mortgages
or real estate acquired through foreclosure. That
is the amount deferred so far as payment to others
is concerned. As your mortgage portfolio is reduced you

must bring back the reserve set up on the amount of reduction
into income and pay the tax to Ottawa. It is not a reserve against
which you may write off losses. It is a deferment
of tax. It is unlike the reserve authorized by the Act



1 for the Quebec Savings Banks and the Charter Banks where
2 the Minister determines what amount may be added to or
3 taken away from the reserves for income tax purposes,
4 against which the banks may charge, as we understand
5 the law, a provision ^{losses and} for contingencies. We, as loan
6 companies, do not do so. We have to write off to
7 profit and loss the amount of actual losses. We may
8 not make provision for contingencies in our income tax,
9 but instead of that we have the privilege of withholding
10 the payment of ^{applicable} tax to the extent of 3 per cent on the
11 mortgage portfolio. If we make losses and we
12 have not got enough portfolio -- pardon me, enough in
13 the profit and loss account -- that is what we would
14 like to have, a greater deferment of the tax so that
15 when these losses come we have this 6 per cent. I
16 may say this figure of 6 per cent was based on the
17 experience of the companies for the period -- I think
18 it was 20 years -- 1931 to 1951, or some such figure.
19 In other words, we want it that the companies will
20 not be in a position of having paid out in income
21 tax, tax on an income which turns out not to have
22 been an income, because the mortgage business is a long-
23 term proposition. You know that some of the mort-
24 gages are not going to be good, but you cannot tell
25 which, and it takes you 20 years to find out how much
26 you are going to lose on them, because it is a long-
27 term process.

28 Through the formula for ordinary trading
29 companies, which can determine their losses once a
30 year on their commercial accounts, we would have paid
tax which would turn out not to have been payable,



for the Quebec Savings Banks and the Greater Banks where
the Minister determines what amount may be added to or
taken away from the reserves for income tax purposes,
against which the banks may share, as we understand
the law, a provision for contingencies. We, as loan
companies, do not do so. We have to write off to
profit and loss the amount of actual losses. We may
not make provision for contingencies in our income tax
but instead of that we have the privilege of withholding
the payment of tax to the extent of 3 per cent on the
mortgage portfolio. If we make losses and we
have not got enough portfolio -- person we, enough in
the profit and loss account -- that is what we would
like to have, a greater deferment of the tax so that
when there losses come we have this 3 per cent. I
may say this figure of 3 per cent was based on the
experience of the companies for the period -- I think
it was 20 years -- 1911 to 1931, or some such figure.
In other words, we want it that the companies will
not be in a position of having paid out in income
tax, on an income which turns out not to have
been an income, because the mortgage business is a long-
term proposition. You know that some of the most
years are not going to be good, but you cannot tell
which, and it takes you 20 years to find out how many
you are going to lose on them, because it is a long-
term process
through the formula for ordinary trading
companies, which can determine their losses and a
year on their commercial accounts, we would have paid



1 and there is no way to recover that tax. Dis-
2 cussions took place for a great number of years with
3 regard to the Income Tax Act which allowed the deduction
4 of a reserve. That is the new Income Tax Act
5 governing losses of the kind we might, as loan companies,
6 meet because we have a long time to wait before we
7 can determine our losses. This deferment of 3 per
8 cent was granted to us and our request was that it
9 be 6 per cent, and I might say it was not easy to get.
10 We did eventually get the 3 per cent over a 12 year
11 period.

12 The income tax reserve has no relation to
13 our ability to borrow. In other words, the 15 times
14 ratio is an ability to borrow related to the capital,
15 whereas the so-called income tax reserve is 3 per
16 cent of your mortgage portfolio as a deferment of
17 tax pending the determination of losses, and I may
18 say in addition that there is no requirement that
19 that reserve be incorporated into your books of accounts.
20 It is merely an income tax operation, an income tax
21 paper work and not necessarily part of your accounting.
22 It is not reflected in the balance sheet as an income
23 tax reserve in the majority of cases. It is a working
24 paper in making out your income tax reports.

25 COMMISSIONER BROWN: Have you any figures
26 on what the average is now? Are all the companies up
27 to 3 per cent?

28 MR. FORTIN: It is not probable.

29 MR. MACKENZIE: It will not be up to 3 per
30 cent until the 12 years are expired. It has only gone



and there is no way to recover that tax. Dis-

cession took place for a great number of years with
regard to the Income Tax Act which allowed the collection

of a reserve. That is the new Income Tax Act.

Governing Issues of the whole country, as I am convinced,

need because we have a long time to wait before we

can determine our losses. This statement of 3 per

cent was given to us and our response was that it

is 3 per cent, and I might say it was not easy to get.

We did eventually get the 3 per cent over a 12 year

the income tax reserve has no relation to

our ability to borrow. In other words, the 12 times

ratio is an ability to borrow related to the capital,

whereas the associated income tax reserve is 3 per

cent of your average portfolio, and a statement of

tax pending the development of losses, and I may

say in addition that there is no requirement that

that reserve be allocated into your books of accounts.

It is merely an income tax operation, an income tax

paper work and not necessarily part of your accounting.

It is not related to the balance sheet or an income

tax reserve in the majority of cases. It is a working

COMMITTEE REPORT. There is any figure

on what the average is now. And all the companies go

to 3 per cent.

Mr. JOHNSON: It is not possible.

Mr. JACKSON: It will not go to 3 per

cent until the 12 years are expired. It has only gone



1 four years now.

2 COMMISSIONER BROWN: And as the volume
3 is increasing all the time it is going to take more
4 than 12 years.

5 MR. FORTIN: It is 12 years on the cob
6 this year, and 12 years on the cob next year. You
7 cannot catch up.

8 COMMISSIONER BROWN: This is an interesting
9 discussion because in your brief you do not go into
10 the reasons why it should be 6 per cent. Have you any
11 figures to show why you arrive at that conclusion?

12 MR. FORTIN: Unfortunately I have not got
13 them with me. I have a table which was a basis of
14 the discussions with the Minister of Finance and the
15 income tax people when we got this, which I think was
16 in 19 --

17 COMMISSIONER BROWN: 1958, according to this.

18 MR. FORTIN: 1958, was it?
19 We collected figures from the companies over 20 years
20 as to what did take place in those bad years.

21 MR. TAYLOR: I think this can be said, Mr.
22 Brown, that a rate of 5 per cent would be very close
23 to the actual experience of member companies over a
24 period of 25 years. This certainly has not applied
25 in the last 17 years. The losses have been very
26 low during the last 17 years. As a result of the
27 inflation of property values there has been an increase
28 in equity, but there is every reason to believe that
29 this is not going to continue, and 5 per cent is a
30 reasonable rate to have -- a reserve of 5 per cent or



1 6 per cent, which was asked for originally, and that is
2 a more realistic approach to this than the 3 per cent
3 that is now applicable.

4 COMMISSIONER BROWN: Would you agree 5 per
5 cent is a reasonable loss figure over the long term?

6 THE CHAIRMAN: I am afraid I cannot hear
7 the answer.

8 MR. MACKENZIE: Oh, yes. I am afraid,
9 however, I have no statistics on that.

10 MR. LECHARTIER: I would agree if you include
11 the service.

12 COMMISSIONER BROWN: The point I am making
13 is that you are asking for an increase to 6 per cent
14 without any supporting statistics.

15 MR. TAYLOR: In my thinking I acknowledge
16 5 per cent is the figure I carry. That is the base
17 in my thinking.

18 MR. FORTIN: May I point out, Mr. Brown,
19 this deduction determined for income tax is not limited
20 to loan and trust companies. It is available to anyone
21 whose main business is mortgage lending, so it is
22 available to an individual who can establish that he
23 is in the mortgage business. It does not apply
24 specifically to loan companies.

25 COMMISSIONER LEMAN: If 5 per cent is
26 needed for people who loan up to 60 per cent, I hate
27 to think what it should be for those who loan up to
28 85 per cent or 90 per cent.

29 MR. FORTIN: Of course we do not do that
30 business.

6 per cent, which was asked for originally, and that is a more realistic approach to this than the 3 per cent that is now applicable.

COMMISSIONER BROWN: Would you agree 5 per

cent is a reasonable loss figure over the long term?

THE CHAIRMAN: I am afraid I cannot hear

the answer.

MR. MACDONALD: Oh, yes. I am afraid,

however, I have no objection to that.

MR. LEONARD: I would agree if you include

the service.

COMMISSIONER BROWN: The point I am making

is that you are asking for an increase to 5 per cent

without any supporting statistics.

MR. FAYSON: In my thinking I am somewhat

5 per cent is the figure I carry. That is the base

in my thinking.

MR. TORRIN: May I bring out, Mr. Brown,

this deduction concerning for those tax is not related

to loan and trust companies. It is available to anyone

whose main business is mortgage lending, so it is

available to an individual who can establish that he

is in the mortgage business. It does not apply

specifically to loan companies.

COMMISSIONER BROWN: The 5 per cent is

needed for people who loan up to 50 per cent, I hope

to think what it should be for those who loan up to

65 per cent or 70 per cent.

MR. TORRIN: Of course we do not do that



1 COMMISSIONER GIBSON: There is another factor.
2 There is an average increasing amount of mortgage
3 loans outstanding.

4 COMMISSIONER BROWN: I think this was a
5 point made earlier, that on the basis of $\frac{1}{4}$ per cent
6 it would take more than 12 years to get up to 3 per
7 cent.

8 MR. FORTIN: You do not need 3 per cent
9 on a N.H.A. holding portfolio.

10 COMMISSIONER BROWN: You write your specific
11 loss each year off on the profit and loss account?

12 MR. FORTIN: That is right.

13 COMMISSIONER BROWN: But suppose you had
14 heavy losses in the future, how would you make this
15 reserve available?

16 MR. FORTIN: It is not available for losses.
17 What would happen is that if your losses happen to
18 decrease your portfolio, as they would, then you have
19 to bring that deferment tax into income and you have
20 to pay tax on it.

21 COMMISSIONER BROWN: In order to use this
22 reserve you have to bring it back -- you do not use
23 the reserve to cover losses?

24 MR. FORTIN: No. All you can do is bring
25 this into income and write off another part of your
26 portfolio.

27 COMMISSIONER BROWN: That would offset other
28 funds which would not be taxable.

29 MR. FORTIN: We write off our losses
30



There is an average increasing amount of mortgages

being made recently, based on the basis of 3 per cent
it would take more than 11 years to get up to 3 per
cent

MR. FORTIN: How do you reach 3 per cent

on a 2.5 per cent mortgage?

COMMISSIONER BROWN: You have your specific

loss when you sell on the ground and sell earnings

MR. FORTIN: That is right.

COMMISSIONER BROWN: But as you have had

heavy losses in one instance, you would not make this

reserve available?

MR. FORTIN: It is not available for losses.

What would happen is that if your losses happen to
decrease your available, and then you would
to bring that balance tax into income and you have
to pay tax on it.

COMMISSIONER BROWN: To order to use this

reserve you have to bring it into income -- you do not use

the reserve to cover losses?

MR. FORTIN: No, all you can do is bring

this into income and write off another part of your

COMMISSIONER BROWN: That would offset other

items which would not be taxable.

MR. FORTIN: We write off our losses.



1 irrespective of their relation to the so-called
2 increment you bring back into your reserves.

3 COMMISSIONER BROWN: You bring that back
4 into general income?

5 MR. FORTIN: Yes, that is right.

6 COMMISSIONER BROWN: In effect it is
7 available on an indirect basis?

8 MR. FORTIN: What happens is that you never
9 pay income tax -- you never pay that amount of tax so
10 long as your portfolio keeps increasing, irrespective
11 of your losses.

12 MR. MACKENZIE: Half of the amount set aside
13 for your reserve is the tax involved. If you have
14 \$3 million set aside, there is a possibility \$1½ million
15 would have to be paid in increased taxation if your
16 portfolio is raised from nothing.

17 MR. FORTIN: You can only bring back into
18 income the amount you wrote off the year before. Then
19 you write off in the reserve what is calculated to a ^{maximum of} /
20 3 per cent of the mortgage portfolio at the end of the
21 year. It is around about sort of thing, but that is
22 the way it works.

23 MR. MACKENZIE: Some of us were prepared
24 to have a corporation tax of 40 per cent instead of
25 52 per cent.

26
27 MR. FORTIN: This is a deduction from income and not
28 from tax. It is a deduction from income. You do not
29 have to take it. You can still write off -- you must
30 write off from profits losses on fore-



Mr. Tolson: This is a deduction from income and not from tax. It is a deduction from income. You do not have to take it. You can still write off -- you must write off from profits losses on loans.

MR. TOLSON: Yes, that is right.
COMMISSIONER BROWN: In effect it is available on an indirect basis?
MR. TOLSON: What happens is that you never pay income tax -- you never pay that amount of tax so long as your portfolio keeps increasing, irrespective of your losses.

MR. BACKUS: Half of the amount set aside for your reserve is the tax involved. If you have \$3 million set aside, there is a possibility \$1.5 million would have to be paid in increased taxation if your portfolio is raised from nothing.

MR. TOLSON: You can only bring back into income the amount you wrote off the year before. When you write off in the year you want is calculated to a maximum of 3 per cent of the mortgage portfolio at the end of the year. It is around about 3 per cent, but that is the way it works.

MR. BACKUS: Some of us were prepared to have a corporation tax of 40 per cent instead of

MR. TOLSON: That is a deduction from income and not from tax. It is a deduction from income. You do not have to take it. You can still write off -- you must write off from profits losses on loans.



1 closed properties in your income calculated according
2 to the Income Tax Act. If you take this reserve you
3 may be in a situation where you may have to bring
4 back into income something which was income in
5 previous years and no longer is, and you would be hard
6 put to find the money to pay the tax on it. It is
7 purely an income tax paper proposition and the basis
8 of our proposition, Mr. Brown, is that if the tax
9 was easier on us, either through this or some other
10 way, then we would have more money to support housing
11 in the mortgage market.

12 COMMISSIONER BROWN: This is the general
13 proposition -- if we all paid less in taxation we would
14 have more to spend on other things.

15 MR. FORTIN: That is right.

16 COMMISSIONER BROWN: Mention was made of
17 the 5 per cent loss ratio on a 60 per cent loan basis,
18 and mention was made throughout your brief of the
19 restriction of 66 2/3 -- at least some companies have
20 said they are against your going up to 66 2/3. What
21 would happen if the 66 2/3 restriction were removed?
22
23
24
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29
30

at the income tax law. If you have this money, you

may be in a situation where you may have to bring

back into income something which was income in

previous years and no longer is, and you would be hard

put to find the money to pay the tax on it. It is

purely an income tax paper proposition and the basis

of our proposition, Mr. Brown, is that if the tax

was easier on us, other through sale or some other

way, then we would have more money to support housing

in the mortgage market.

COMMISSIONER BROWN: This is the general

proposition - if we will hold less in taxation we would

have more to spend on other things.

MR. TOLIN: This is right.

COMMISSIONER BROWN: Another question was raised

the 5 per cent loss ratio on a 50 per cent loan basis,

and mention was made throughout the trial of the

restriction of 66 2/3 - at least some companies have

said they are against your going up to 66 2/3. What

would happen if the 66 2/3 restriction were removed?



1 MR. FORTIN: There was no restriction for
2 Ontario chartered companies until April of this year
3 Ontario chartered loan and trust companies -- and I
4 am talking about/^{trust} companies in respect of a company
5 account of one-half the guaranteed account -- had
6 no restriction. Those companies felt as a matter of
7 good practice and good lending that they should stick
8 pretty close to the 60 per cent. Some made 62, 64,
9 65, but generally speaking 60 per cent was pretty
10 well the rate even when there was no 66-2/3 applicable
11 for Ontario chartered companies.

12 MR. NORSWORTHY: We felt that way very
13 definitely.

14 COMMISSIONER BROWN: It is now restricted
15 in Ontario?

16 MR. FORTIN: Yes.

17 COMMISSIONER BROWN: Was it done at the
18 request of the companies?

19 MR. FORTIN: The decision was that of the
20 Province of Ontario, I assume, on the recommendation
21 of the Registrar of Loan and Trust Corporations;
22 not at our request. We had some mild objection to
23 the limit being put in and restricting our liberty.
24 There are always some cases where you can go higher
25 because of special circumstances, but that was not
26 pressed. It was the view of the minister in charge
27 of the department in Ontario, and we went along.

28 COMMISSIONER BROWN: Would you be in favour
29 of restrictions being removed?

30 MR. MACKENZIE: We don't resist this. We

MR. TOTTEN: There was no restriction for

Ontario companies until April of this year

Ontario companies and that companies -- and I

am talking about companies in respect of a company

account of one-half of the registered account -- had

no restriction. Those companies felt as a matter of

good practice and good lending that they should still

pretty close to the 60 per cent. Some made 60, 65,

65, but generally speaking 60 per cent was pretty

well the rate even when there was no 60-65 applicable

for Ontario companies.

MR. TOTTEN: We felt that was very

COMMISSIONER BROWN: It is now restricted

in Ontario

MR. TOTTEN: Yes.

COMMISSIONER BROWN: Was it done at the

request of the companies?

MR. TOTTEN: The decision was that of the

Province of Ontario, I assume, on the recommendation

of the Registrar of Land and Trust Corporations

not at our request. We had no mind or action in

the limit being put in and restricting our liberty.

There are always some cases where you can go higher

because of special circumstances, but that was not

presented. It was the view of the Minister in charge

of the department in Ontario, and we went along.

COMMISSIONER BROWN: Would you be in favour

of restrictions being removed?

MR. TOTTEN: We don't raise this. We



1 have made 66-2/3 per cent loans, but as a general
2 rule we prefer to stick to the 60 per cent. We have
3 seen real estate values shrink before. This business
4 of appraisals is not an exact science: there are
5 some things entering into it other than the bricks
6 and mortar; the morale side has a great deal to do
7 with it as well.

8 COMMISSIONER BROWN: Is this a restriction
9 that is not really operative and is therefore not
10 necessary.

11 MR. MACKENZIE: I think there are two views:
12 there are those who would think that a 90 per cent
13 loan is not bad; there are those who think that 80
14 per cent -- our group of people I don't think would
15 like to go above 66-2/3 as we see the picture now;
16 and some of our people would have preferred to remain
17 at 60. That is the picture.

18 COMMISSIONER BROWN: But I still ask the
19 question, if you are not going to 66-2/3, would you
20 have any objection to this limit being removed entirely,
21 or do you think it a good thing to have on to protect
22 against your competitor?

23 MR. MACKENZIE: We have to be able
24 competitively to land as much as people of the same
25 relative quality as ourselves -- life and loan trust
26 companies; otherwise you can't do mortgage business.

27 MR. TAYLOR: I think it is important there
28 be a limit because it is essential a person have an
29 equity in the property if they are to have any
30 incentive at all to maintain their obligations relating



have made 60-65 per cent loans, but as a general rule we prefer to stick to the 50 per cent. We have seen real estate values shrink before. This business of appraisals is not an exact science. There are some things coming into it other than the books and mortar; the mortgage side has a great deal to do with it as well.

COMMISSIONER IRVING: Is this a restriction

that is not really operative and is therefore not

MR. MACHENIE: I think there are two views;

there are those who would think that a 50 per cent loan is not bad; there are those who think that 30 per cent -- one group of people I don't think would like to go above 60-65 as we are the present now; and some of our people would have preferred to remain at 50. That is the picture.

COMMISSIONER IRVING: How I still can the

question, if you are not going to 60-65, would you have any objection to this limit being removed entirely, or do you think it a good thing to have on to protect

MR. MACHENIE: We have to be able

competitively to land as much as people of the same relative quality as ourselves -- like and loan those companies; otherwise you can't do any business. MR. IRVING: I think it is important there

be a limit because if it is essential a person have an

equity in the property if they are to have any

incentive to all the business their obligations relating



1 to it. If the restrictions were removed entirely,
2 competition would gradually force that rate up. Today
3 it is very difficult to loan at the prime rate for
4 loans unless you are loaning in the 66-2/3 per cent
5 area. I would think it is important there continue
6 to be a limit, because the equity surely is the basis
7 of the health of the loan. If the man has no equity,
8 he can walk out.

9 THE CHAIRMAN: If you went beyond that you
10 would be entering the second mortgage field in a sense;
11 it would be a combined first and second mortgage.

12 MR. MACKENZIE: That is a very important
13 point. Our debentures are recognized as trustee
14 investments in most of the provinces. If it turned
15 out that there were 90 per cent mortgages, that
16 would be a violation of what we would think of as
17 a trustee investment. In most of the provinces they
18 are limited to 60 per cent of the value. I think that
19 has been increased in most of the provinces; I think
20 Nova Scotia is now up to 75.

21 THE CHAIRMAN: Yes, but on the other hand,
22 wouldn't it be desirable to be able to lend on the
23 basis of a sort of combined first and second mortgage,
24 and be much more convenient for the customer to get
25 from you one over-all mortgage at an appropriate
26 interest rate, due to the fact there was that
27 additional risk attached.

28 MR. MACKENZIE: You mean up to 80 per cent?

29 THE CHAIRMAN: Any per cent.

30 MR. MACKENZIE: If you could guarantee real

to it. If the restrictions were removed entirely, competition would be greatly increased and the rate for it is very difficult to loan at the prime rate for loans unless, of course, in the 1-2% per cent area. I would think it is important to be a little, because the equity ratio is the basis of the health of the loan. If the man has no equity, he can walk out.

THE CHAIRMAN: If you want beyond that you would be entering the second mortgage field in a sense; it would be a combined first and second mortgage. MR. MACDONALD: That is a very important point. Our experience and knowledge as trustees in most of the provinces. If it turned out that there were 40 per cent mortgages, that would be a violation of what we would think of as a trustee investment. In most of the provinces they are limited to 30 per cent of the value. I think that has been increased in most of the provinces; I think Nova Scotia is now up to 35.

THE CHAIRMAN: Yes, but in the other hand, wouldn't it be desirable to be able to lend on the basis of a sort of combined first and second mortgage and be more convenient for the borrower, to be from you are overall matters of an experimental interest now, due to the fact there was that additional risk involved.

MR. MACDONALD: You mean up to 30 per cent?

THE CHAIRMAN: Any can come.

MR. MACDONALD: If you would, please be real.



1 estate values would not fluctuate beyond a limit of
2 80 per cent, you could say yes, but we have seen
3 situations where real estate values have shrunk
4 considerably more than 20 per cent in depression periods.

5 MR.FORTIN: I think there is the other
6 factor, that if the security is of a lesser quality,
7 then the cost of the money to the lender is going to
8 be more.

9 THE CHAIRMAN: Yes, I admitted that, that
10 it would be; otherwise, the individual, if he had
11 to raise the additional money, would have to go out
12 and get a second mortgage at considerable expense.

13 MR. FORTIN: There are organizations now
14 lending 80 per cent and charging 12 per cent.

15 THE CHAIRMAN: Well, whether that is right
16 or not I would not know, but I was throwing it out
17 as a question.

18 MR. FORTIN: Our class of people has
19 traditionally done a first mortgage 60 per cent,
20 irrespective of the fact that Ontario said no limit. The
21 Superintendent over the years was inclined to take
22 a rather dim view of mortgages that seemed to him,
23 on his valuation, to push up, not necessarily at
24 60, but somewhere beyond that. The whole tendency
25 has been for the safety of the depositor and the
26 debenture holder to maintain a low ratio to value.
27 There was no sanctity in 60: at one time it was 50,
28 and now we have 66-2/3. The Dominion Government
29 recognized that in its N.H.A. by providing that if
30 you are making a bigger loan they give you a form of



...the value would not increase beyond a limit of

50 per cent. You could say that, but we have seen

speculations which would reduce value to a very small

considerable amount more than 50 per cent. in a very short period.

MR. BROWN: I think there is the other

factor, that if the security is of a lesser quality,

then the cost of the money to the lender is going to

be more

THE CHAIRMAN: Yes, I noticed that, that

it would be; otherwise, the individual, if he had

to reduce the additional cost, would have to, in fact,

and get a second mortgage at considerable expense.

MR. BROWN: There are organizations now

issuing 50 per cent. mortgages, in fact.

THE CHAIRMAN: Well, whether that is right

or not I would not know, but I am assuming it is

as a question.

MR. BROWN: One of the things that

traditionally have a first mortgage of 50 per cent.

is the fact that Ontario said no limit. The

Government has said that, and has declined to take

a further step which would have been required to him,

on the valuation, to such an extent as to be

50, the amount of the loan, the Government

has been for the safety of the borrower and the

other things which are in a few words to say,

There was no limit, and the Government was 50,

and now we have 50. The Government

has decided that the bill is by providing that if

you are making a loan, you give you a loan.



1 insurance against taking the extra risk, which, in
2 this country at least, was considered to be beyond
3 the type of operation our companies carry. If you
4 will recall, the original Dominion Housing Act was
5 an 80 per cent loan, the Dominion Government putting
6 up the difference between a 60 per cent loan and the
7 80 per cent loan, recognizing that the 60 per cent
8 was something we could take the risk on. Of course,
9 with the insured scheme we have gone quite a way
10 beyond that.

11 COMMISSIONER LEMAN: Does that mean if there
12 was a system of insurance for conventional mortgages
13 there might be a case for going beyond two-thirds?

14 MR. FORTIN: Don't forget the lender has
15 to pay for the insurance, and what he pays for that,
16 is the difference in yield that he can get on his
17 money. One of the conditions of getting the government
18 insurance is that you lend at $6\frac{1}{2}$ per cent. If $6\frac{1}{2}$
19 per cent does not cover the margin between the cost of
20 your money and the administration, then the insurance
21 is not much good to you, because you can't tie up
22 the two factors. That is why this class of company
23 is not in the N.H.A., notwithstanding the guarantee
24 insurance, because you can't fit in the cost and
25 the return.

26 COMMISSIONER BROWN: This brings up one
27 question in connection with N.H.A. mortgages: it has
28 been suggested that the N.H.A. rates should be left
29 to be subject to the market: what is your opinion
30 on this?



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up the difference between a 50 per cent loan and the
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with the insured scheme we have gone quite a way
beyond that.

COMMISSIONER: Does that mean if there
was a system of insurance for conventional mortgages
there might be a case for going beyond two-thirds?
MR. FLETCHER: That is one of the factors has
to pay for the insurance, and what we pay for that,
the difference is what that we can get on his
money. One of the conditions of letting the Government
insurance is that you loan at 5 per cent. If the
Government does not cover the risk between the cost of
your money and the insurance, then the insurance
is not worth your money, because you can't tie up
the two factors. That is why this class of company
is not in the N.H.A., notwithstanding the insurance
insurance, because you can't tie in the cost and
the return.

COMMISSIONER: That brings up one
question in connection with N.H.A. mortgages: It has
been suggested that the N.H.A. rates should be left
to be subject to the market, when in your opinion
on this?



1 MR. FORTIN: We believe any rates artificially
2 set are an impediment to the proper working of the
3 money market. We agree that for a great many consider-
4 ations, other than monetary, rates have been fixed.
5 You are in the same position with respect to loans
6 to farmers, fishermen, and various other peg rates,
7 irrespective of what ~~those~~ rates might be under
8 conditions of competition in the money market.

9 COMMISSIONER BROWN: What do you think would
10 happen to N.H.A. and other rates if they were made
11 subject to the market? What are your opinions?

12 MR. FORTIN: Today?

13 COMMISSIONER BROWN: Yes, that is what we
14 are asking.

15 MR. FORTIN: Well, that $6\frac{1}{2}$ per cent rate
16 today not being a profit -- I frankly don't know.
17 It depends on a great many factors tied in with every-
18 thing. I could say something today and find that
19 tomorrow afternoon something has happened in the bond
20 market that it is up the flue again. What I think
21 is a proper rate this morning is not necessarily true
22 this afternoon. That is one of the problems with
23 a fixed rate that is pegged on considerations.

24 other than the management of money .

25
26 COMMISSIONER BROWN: That is what we are
27 asking: what do you think would happen if the
28 N.H.A. ceiling were removed?

29 MR. FORTIN: The market would set the rate.

30 COMMISSIONER BROWN: What would it be

He believe my rates sufficient



1 relative to other rates today?

2 MR. FORTIN: I don't know.

3 MR. TAYLOR: I don't think the rate at the
4 present time would change appreciably. I think there
5 would probably be a spread of $\frac{1}{2}$ per cent between
6 the conventional prime rate, which is $7\frac{1}{2}$, and the
7 N.H.A. rate. The higher the rate the greater the risk.
8 A conventional loan has a greater risk attached to it
9 than an N.H.A. loan, and therefore there is bound to
10 be some differential. I would think half of one per
11 cent is not unreasonable.

12 MR. FORTIN: We have seen it at a quarter
13 per cent at times.

14 MR. NORSWORTHY: Another reason might be
15 the old saying of supply and demand: if there is a
16 good quantity of money available, down it would come;
17 and up it would go reversely.

18 COMMISSIONER GIBSON: You don't think if
19 the N.H.A. rate were free you would be much more
20 likely to be dealing in N.H.A. mortgages?

21 MR. FORTIN: If you were free to set your
22 own rate and get it approved by Central Mortgage
23 and Housing on the basis of the rate of interest, then
24 you would have some N.H.A. loans at different rates
25 of interest.

26 COMMISSIONER GIBSON: But we were talking
27 about the N.H.A. rate being set by the market. When
28 you suggest it may be very different from what it is
29 now, that suggests to me you would be in the business
30 more.



relative to other cases today?

MR. TAYLOR: I don't know.

MR. TAYLOR: I don't think the rate is the

primary one would change appreciably. I think there

would probably be a spread of 5 per cent between

the conventional prime rate, which is 7 1/2, and the

N.H.A. rate. The prime rate the market has been

A conventional base has a greater view toward to it

than an N.H.A. loan, and therefore there is bound to

be some differential. I would think half of one per

cent is not unreasonable.

MR. TAYLOR: We have seen it at a quarter

per cent at times.

MR. TAYLOR: Another reason might be

the old ruling of supply and demand. If there is a

good quantity of money available down it would come;

and up it would go otherwise.

COMMISSIONER GILSON: You don't think it

the N.H.A. rate more than you would be with more

likely to be floating in N.H.A. currency?

MR. TAYLOR: If you were free to set your

own rate and get it approved by General Motors

and Ford on the basis of the rate of interest, then

you would have some N.H.A. loans at different rates

of interest.

COMMISSIONER GILSON: But we were talking

about the N.H.A. rate being set by the market. When

you say it may be very different from what it is

now, that suggests to me you would be in the business

more.



1 MR. LECHARTIER: There is also the rotation
2 of money, which is slow, and also the control is very
3 heavy, and also you have to make more reports -- much
4 more than we feel are needed.

5 MR. TAYLOR: I think that is the answer:
6 we would still be loaning for a long period as against
7 borrowing for a short period, and to that extent would
8 not fit into the operation.

9 THE CHAIRMAN: That concludes the hearing
10 of Dominion Mortgage and Investments Association.
11 We appreciate your presence here very much indeed.
12 The discussion has been very helpful to us. We also
13 would like to congratulate you on the brief you
14 prepared, which discloses that a great deal of work
15 and thought has been put into it, and we are very
16 grateful to you indeed.

17 MR. TAYLOR: Thank you, sir. May I
18 express our appreciation and say I hope at least we
19 have demonstrated the fact there is no combine among
20 the loaning companies. There is mutual respect, but
21 certainly nothing in the nature of a combine.

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of money, which is slow, and also the control is very heavy, and also you have to make more reports -- much more than we feel are needed.

MR. TAYLOR: I think that is the answer:

we would still be looking for a long period as against borrowing for a short period, and so that extent would not fit into the operation.

THE CHAIRMAN: That concludes the hearing.

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We appreciate your presence here very much indeed.

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would like to congratulate you on the brief you

prepared, which discloses that a great deal of work

and thought has been put into it, and we are very

grateful to you indeed.

MR. TAYLOR: Thank you, sir. May I

express our appreciation and say I hope at least we

have demonstrated the fact that there is no complaint among

the lending community. There is mutual respect, but

certainly nothing in the nature of a complaint.



SUBMISSION OF

THE NATIONAL HOUSE BUILDERS ASSOCIATION

APPEARANCES

Mr. W.M. McCance

Mr. J.B. Sawyer

Mr. John Caulfield Smith - Executive
Vice-
President.

THE CHAIRMAN: We shall now proceed

with your brief, Mr. McCance. I believe you are the
spokesman for this association.

MR. McCANCE: Thank you, Mr. Chairman.

I would like to introduce the two gentlemen I have,
with me. Mr. J.B. Sawyer, a member of our association
from Halifax, and Mr. John Caulfield Smith, the
Executive Vice-President of the National House Builders
Association.

THE CHAIRMAN: We will proceed immediately
with questions. I understand you do not wish to
make any preliminary statement?

MR. McCANCE: No, other than to clarify
one point which sometimes seems confusing. I think
it would be in order for me to make sure that everyone
understands the position of the National House Builders
Association. We are speaking on behalf of that
segment of the construction industry which is the



APPENDIX

Mr. W.M. McGowan

Mr. John Campbell Smith - Executive

THE CHAIRMAN: We shall now proceed

with your brief, Mr. McGowan. I believe you are the

spokesman for this association.

MR. MCGOWAN: Thank you, Mr. Chairman.

I would like to introduce the two gentlemen I have

with me, Mr. J.B. Sawyer, a member of our association

from Halifax, and Mr. John Gault and Smith, the

Executive Vice-President of the National Horse Builders

THE CHAIRMAN: We will proceed immediately

with questions. I understand you do not wish to

make any preliminary statements?

MR. MCGOWAN: No, other than to clarify

one point which sometimes seems confusing. I think

it would be in order for me to make sure that everyone

understands the position of the National Horse Builders

Association. We are speaking on behalf of that

segment of the construction industry which is the

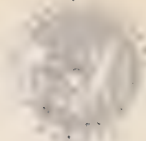


1 builder investor as opposed to the other segment which
2 is the general contractor, primarily. We feel quite
3 significant differences in our interest in the market.
4 We represent the sector where the builder is also the
5 investor; he is investing his own money and, therefore,
6 has a much more intimate interest, particularly in
7 the mortgage feature, whereas the general contractor
8 on the other hand -- and some of us, I may say, are
9 also general contractors -- but today the general
10 contractor is working on tender, taking an order to
11 build a building for a client who probably is the
12 investor. This is quite a significant difference,
13 and we are speaking for the builder investor or merchant
14 builder segment of the industry, primarily.

15 THE CHAIRMAN: Thank you.

16 COMMISSIONER LEMAN: Mr. McCance, one of
17 the main points you make in your brief is where you
18 express the fact that there is a lack of adequate
19 base of private funds for financing residential
20 construction in Canada, and quite a lot of your
21 comments seem to surround this main point. If, as
22 you say, the annual rate of personal savings in
23 Canada appears sufficient to provide the base for
24 financing housing in Canada -- and I think you express
25 it nowadays as requiring about 975 million of new
26 money each year -- what do you think is the fundamental
27 reason that since the savings are sufficient that they
28 have not tended to flow into this particular sector
29 of demand for funds?

30 MR. McCANCE: Well, I think one reason, sir,



is the general contractor, primarily. We feel quite
different differences in our interest in the market.
We represent the owner where the market is also the
investor; he is investing his own money and, therefore,
has a much more intimate interest, particularly in
the mortgage feature, whereas the general contractor
on the other hand -- and some of us, I may say, are
also general contractors -- but today the general
contractor is working on tender, taking an order to
build a building for a client who probably is the
investor. This is quite a significant difference,
and we are working for the holder investor or merchant
rather segment of the industry, primarily.

THE CHAIRMAN: Thank you.

COMMISSIONER LAMAR: Mr. McGowan, one of
the main points you make in your article is where you
express the fact that there is a lack of adequate
rate of private funds for financing residential
construction in Canada, and make a lot of your
comments seem to be based on this point. If, as
you say, the annual rate of personal savings in
Canada appears sufficient to provide the base for
financing housing in Canada -- and I think you expect
it nowadays as regarding about 9% of the total
money stock -- what do you think is the fundamental
reason that since the war has ended and started when the
rate has tended to flow into this residential sector
of demand for housing?

MR. MCGOWAN: Well, I think the reason, sir,



1 is that there are other demands on personal savings
2 than mortgages. As the brief points out, a very
3 substantial proportion of the personal savings of
4 Canadians is deposited in the chartered banks, and
5 at the present time these are virtually withdrawn from
6 mortgage lending, and this represents a considerable
7 segment of the private savings as one example which
8 is not available for mortgages.

9 COMMISSIONER LEMAN: Is this a malfunction
10 of the capital market in Canada that has developed
11 over a long number of years, or why did not that
12 sector, claiming a right to a share of the Canadian
13 savings, make sure it would attract the necessary
14 funds?

15 MR. McCANCE: This seems to be traditional
16 with our chartered banks as opposed to banks in other
17 countries which have been very active in the mortgage
18 field. Our banks did not enter the field until the
19 National Housing Act of 1954 made it possible for them
20 to do so, and then only because of the insurance feature
21 of the Act. This, I understand, is primarily why they
22 went in, and they have withdrawn, of course, for
23 other reasons.

24 COMMISSIONER LEMAN: What I am really
25 searching for is this: why have not institutions
26 developed in Canada that would attract the necessary
27 funds to serve that sector of the economy?

28

29

30



1 MR. McCANCE: Well, I am not sure I can
2 answer that. This probably occurred many years ago
3 and I think it appears to be a point in history --
4 maybe it was Dr. Mackintosh who mentioned this -- a
5 point in history where the building society function
6 of our loan and trust companies seemed to diminish
7 and the other depositories and personal savings became
8 more attractive. I am not a student of the past
9 picture of banking and I don't believe I am qualified
10 to say why this occurred.

11 COMMISSIONER LEMAN: Concerning the same
12 kind of problems, you explain in your brief that the
13 main problem in house mortgage financing is the down
14 payment and that you discovered from experience that once
15 the transaction has been made that usually the owner
16 can support the payments to service the loan and
17 that the down payment is the main difficulty, and then
18 you give us as an average \$2,475 being required as
19 a down payment, so to make it simple let us talk about
20 \$2,500. What is the \$2,500 equal to on an average --
21 a broad average? Is it about two years
22 of payments against the mortgage which he would take
23 out?

24 MR. McCANCE: Yes, roughly, because the
25 payments on the minimum house will be very close to
26 \$100 a month and that would be \$2400 over a two year
27 period. That is principal and interest, of course.

28 COMMISSIONER LEMAN: When people buy a new
29 house do they do so just as soon as they start earning,
30 or do they do it as soon as they get married, or when

MR. McCAFFREY: Well, I am not sure I can

answer that. This probably occurred many years ago

and I think it appears to be a point in history --

maybe it was Dr. Macdonald who mentioned this -- a

point in history where the building society function

of our loan and trust companies seemed to diminish

and the other decorations and personal savings became

more attractive. I am not a student of the past

picture of banking and I don't believe I am qualified

to say why this occurred.

COMMISSIONER LEWIS: Concerning the same

kind of problems, you explain in your book that the

main problem in house mortgage financing is the down

payment and that you discovered from experience that once

the transaction has been made that usually the owner

can support the payments for service the loan and

that the down payment is the main difficulty, and then

you give us as an average \$2,475 being required as

a down payment, so to make it simple let us talk about

\$2,500. What is the \$2,500 equal to on an average --

a broad average? Is it about two years

of payments against the mortgage which he would take

MR. McCAFFREY: Yes, roughly, because the

payments on the minimum house will be very close to

\$200 a month and that would be \$2400 over a two year

period. That is principal and interest on average.

COMMISSIONER LEWIS: What people pay a new

house do they do so just as soon as they start earning,

or do they do it as soon as they get married, or when



1 do they buy a house?

2 MR. McCANCE: Well, the average age in N.H.A.,
3 I believe, is around 34, and this would indicate that
4 they are somewhere beyond the age of first being married
5 and that this occurs somewhere a little later. I think
6 possibly my prediction would be that this may even
7 become later yet as time goes on. We are going to
8 have a great many young married people on the market
9 within a few years and I think it is going to be very,
10 very difficult for them to become home owners, with
11 their limited incomes and their lack of equity to put
12 down on a new house.

13 COMMISSIONER LEMAN: Well, there again
14 could we search for causes; this person who buys a
15 house, you say on the average he has no difficulty
16 saving the amount that he needs to save year by year
17 to service the loan, but has been unable to start
18 saving two years earlier in order to provide this
19 down payment, is that it?

20 MR. McCANCE: I think this is a fact of
21 life which is true; I don't know how we can explain
22 this, but people just simply do not have the savings,
23 and unless they are forced to save -- and home owner-
24 ship is one means of forced saving, I believe -- they
25 don't seem to have done this. They have spent the
26 money perhaps on other things; they have bought a new
27 car or bought other things prior to buying a house
28 because there are so many attractions today for the
29 consumer's dollar, and home ownership is something
30 that is only done if one definitely sets out to attain



very much a person

Mr. [Name] [Address] [City] [State] [Zip]

I believe, as you say, that this would indicate that they are somewhat beyond the age of 15 and below married and that this would indicate a little later. I think possibly my prediction would be that this may even become later than at first thought. We are going to have a great many young married people in the market within a few years and I think it is going to be very very difficult for them to become home owners, with their limited incomes and their lack of equity to put over on a new house.

Good afternoon, Mr. [Name], here again

could we expect for a while; this person who buys a house, for example, and saves a few dollars a month, saving the way to that he would be able to save more or less to replace the house but has been unable to do so. During two years earlier in order to replace this house, perhaps, it would be.

Mr. [Name]: I think this is a good bit

the right is right. I don't know how we can explain this, the people just simply do not have the capital and unless they are forced to save -- and have money and is the means of being able to do so -- they don't seem to have that. They have saved a few money perhaps in other things, they have to put a few out on bonds, other things, but to buying a house, because there are so many other things they can do, and then a dollar, and then a few dollars, and then a few more, that is only a few dollars if one is not able to obtain



1 it and arranges the savings.

2 COMMISSIONER LEMAN: Do you think that one
3 should or could form a judgment as to whether it is
4 reasonable that people should be able to make that
5 kind of down payment from straight equity without
6 going into the second mortgage market or finding other
7 sources of funds?

8 MR. McCANCE: Well, I think the statement we
9 made was that the down payment is the crucial thing
10 in house sales today; it is something that we have
11 to recognize as a fact and it just seems that the
12 interest rate or the rate of return is the secondary
13 feature. Many people have good jobs, making good money,
14 and they are able to handle the monthly payments but
15 they just haven't accumulated this necessary down
16 payment and I think a continued active market is
17 dependent on continuing to be able to offer this same
18 type of financing.

19 COMMISSIONER LEMAN: Do you have any of your
20 own guesses as to how much the down payment nowadays
21 is being financed through second mortgages or bank
22 credit or some other source?

23 MR. McCANCE: Under the National Housing
24 Act there would be very little. There is really
25 no necessity because it is possible to go up under
26 N.H.A. to as little as a 5 per cent equity in certain
27 cases. In the case of the building being done with
28 conventional mortgages, there is a considerable amount
29 of secondary financing and third and sometimes fourth
30 going on to supply the necessary funds to reduce the



1 person's equity.

2 COMMISSIONER LEMAN: I am thinking of this \$2,475
3 figure which you quoted to us, and that is largely
4 influenced by the fact
5 that the N.H.A. loans are a predominant percentage
6 of a total mortgage loans.

7 MR. McCANCE: My opinion would be that there
8 is relatively little second financing, second mortgage
9 financing, following the first N.H.A. mortgage.

10 COMMISSIONER LEMAN: That leads me to a
11 question that I wanted to ask you as a representative
12 of the industry as such. Do builders engage in second
13 mortgage lending?

14 MR. McCANCE: I would say not voluntarily;
15 often we are forced into it. Now this, of course,
16 always has exceptions and it should be qualified.

17 Primarily the builder that we speak for
18 is a person building for sale; his continued business
19 depends on him being able to construct the houses
20 and dispose of them and recover his equity. If he
21 continues to leave this equity in -- and we have
22 seen many cases in recent years where this has
23 happened -- he eventually runs out of money and either
24 has to stop building or ceases to be in business.
25 Primarily he is not interested in retaining his
26 equity in the building and consequently he would
27 much prefer to get it out and only leaves it in when
28 he is forced to do so, I think.

29 COMMISSIONER LEMAN: Well, you were talking
30 about what he would like to do; I am asking you what



about what he would like to do; I am asking you what

CONSTITUTIONAL IN THE: Well, you were talking

he is faced to do so, I think.

with regard to getting it done and only a matter of when

equity in the financing and turned away his words

proposition in terms of interest in retaining his

has to some definition or reason to be in business.

happened - he actually made out of money and still

even many cases in recent years where this has

of things to have to be equity in -- and we have

and dispose of them and recover his equity. It is

depends on his being able to convert the house

is a person looking for cash, his continued business

primarily the belief that we speak for

always has a reason and it should be qualified.

often we are forced into it. Now this, of course,

MR. McLELLIN: I would say not voluntarily;

of the industry as such. Of business equity in second

question what I wanted to ask you as a representative

CONSTITUTIONAL IN THE: That leads me to a

transacting, following the first N.H.A. mortgage.

is relatively little second time mortgage, second mortgage

MR. McLELLIN: My question would be that there

of a total mortgage loan.

that the N.H.A. loans are a substantial percentage

incurred by the rate

figures which you showed to me; I think is largely

I am thinking of this \$2.1



1 he does in fact do?

2 MR. McCANCE: I think that is the case.

3 COMMISSIONER LEMAN: Is there a large amount
4 of it being done?

5 MR. McCANCE: There wouldn't be many builders
6 leaving money in houses they have constructed.

7 COMMISSIONER LEMAN: You make a point here
8 which is a little bit contradictory to some repre-
9 sentations which we have from some other people, to
10 the effect that the second mortgage market is a very
11 active one and the rates being charged for second
12 mortgages are very high. I think in some spots you
13 even mention some as high as 40 per cent.

14 MR. McCANCE: That is right.

15 COMMISSIONER LEMAN: Do you have some real
16 figures on a national basis to support this contention
17 you make about the extent of second mortgage lending
18 that goes on in the country?

19 MR. McCANCE: No, we didn't specifically
20 prepare that feature; we are all aware of the existence
21 of these mortgages and the form that they take and
22 the effect they have on the purchaser, the borrower,
23 resulting in obvious hardship. Of course, we have
24 suggested some alternatives to this.

25 COMMISSIONER LEMAN: Well, you make this
26 point in your paragraph 453 in your brief, but there
27 is no indication of the extent of it, you just say
28 that in certain cases it is very expensive and an
29 undesirable development, but have you any idea of
30 the amount of this activity?



DR. McALPIN: I think it is the case.

CONSTITUTIONAL LAW: It is a large amount

of it being done.

DR. McALPIN: There would be many evils

leaving money in cases they have connected.

CONSTITUTIONAL LAW: You have a point here.

which is a little bit contradictory to some extent.

sentations which we have from some other people, to

the effect that the second mortgage would be a very

active one and the first mortgage would be a

passive one very much. I think in some cases you

even mention some as high as 10 or 15.

DR. McALPIN: That is right.

CONSTITUTIONAL LAW: Do you have some more

figures on a national basis to support this contention

you make about the extent of second mortgage lending

that goes on in the country.

DR. McALPIN: No, we don't specifically

prepare that figure; we are all aware of the existence

of these mortgages and the fact that they are

the effect they have on the borrower, the borrower,

resulting in the one holding of course, we have

separated some alternatives to this.

CONSTITUTIONAL LAW: Well, you have this

point in your program by in your mind, but there

is no indication of the extent of it, you are

that in certain cases it is very expensive and in

unbearable development, but have you any idea of

the amount of this activity.



1 MR. McCANCE: No, I couldn't present any
2 figures to you today, Mr. Leman, on that extent.

3 COMMISSIONER LEMAN: You are just trying
4 to make the point that it would be desirable to eliminate
5 the need for any second mortgage money.

6 MR. McCANCE: That is right.

7 COMMISSIONER LEMAN: In that section?

8 MR. McCANCE: Yes.

9 COMMISSIONER LEMAN: And do you feel that
10 the operation of the government under the N.H.A. Act
11 have in their sector pretty well eliminated it?

12 MR. McCANCE: We believe so, yes.

13 COMMISSIONER LEMAN: Now, you make a case
14 in your brief -- and now I am referring to the operations
15 of the Central Mortgage and Housing Corporation -- you
16 say that they have had a very unstabilizing influence
17 on the availability of funds for housing. What has
18 been the results of that? Besides affecting your
19 industry, you make the point about your costs and
20 bringing in the marginal people at times, but separate
21 from the effect on your industry do you think that has
22 had a result from the point of view of the buyer of a
23 house, has it affected the cost of the house?

24 MR. McCANCE: I think that it affected the
25 cost immediately afterwards. In 1958 which was the
26 year in which the peak of housing was reached and it
27 was pressed to the highest limit and there definitely
28 was an over-production of houses, the market was over
29 stimulated by the availability of mortgage money; it was
30



1 being forced on the builders and many entered the field
2 who were not in it before and those who were in it
3 produced more houses than they would ordinarily have
4 done and then the effects were felt the following year;
5 when the cut-back came we were left with many houses
6 that probably should have been built in 1959 and could
7 have been built equally at that time when there was
8 probably immediately at that stage a benefit to the
9 purchaser because there were so many completed and
10 unsold houses on the market that it affected the prices
11 and prices came down.

12 THE CHAIRMAN: What date was that?

13 MR. McCANCE: In 1959. Then we proceeded
14 on into 1960 and the market picked up to some extent,
15 the unsold houses were removed from the market. There
16 was a reduction in building in 1959, there was at the
17 beginning of 1960 a fairly substantial market again
18 and there was a demand early in the year but at this
19 time there was a great scarcity of money. The lenders
20 had withdrawn, the government withdrew some additional
21 funds and also imposed restrictions which they had
22 not had on before and the whole market tightened
23 up, so that in the early part of 1960 builders were
24 unable to plan a programme for that year because they
25 couldn't get direct loans for building themselves and
26 the market tightened up, so in the course of two years
27 the production dropped by almost one-third, and that
28 is a very marked fluctuation in an industry which
29 is attempting to operate on as even a level as possible
30 and providing constant employment, and then towards the



being forced on the full-time and many entered the field who were not in it before and those who were in it produced more houses than they would ordinarily have done and then the effects were felt the following year, when the out-back came we were left with many houses that probably should have been built in 1957 and could have been built equally at that time when there was probably immediately at that stage a benefit to the purchaser because there were no many completed and unsold houses on the market that it affected the price and prices came down.

Q. Now, what was that?

A. Well, because in 1956, when we proceeded on into 1960 and the market picked up to some extent, the unsold houses were removed from the market. There was a reduction in building in 1957, there was at the beginning of 1960 a fairly substantial market again and there was a demand early in the year but at that time there was a great scarcity of money. The banks had withdrawn, the government withdrew some additional funds and also imposed restrictions which they had not had on before and the whole market tightened up, and since in the early part of 1960 building was needed for also a programme for that year because they couldn't get money for building houses and so the market tightened up, so in the end of two years the situation improved by almost one-third, and that as a very marked fluctuation in an industry which is attempting to operate on a fixed level as possible and providing constant employment, and from towards the



1 end of the year the money became available, towards the
2 end of 1960, and by this time some of the demand
3 had disappeared and it was also late in the year
4 and it was difficult to arrange a housing programme
5 and get organized again by this time.

6 I think in 1960 the result was that probably
7 houses were costing more than they should have been
8 because of the builders being unable to plan ahead
9 and operate efficiently; letting off people and
10 then having to take them back on again, and so on,
11 and this has had a reverse effect. It depends on
12 exactly what period you are speaking of as to whether
13 the effect on the sale price is upward or downward,
14 and I believe immediately after a surplus of building
15 it is going to be down and when that building hasn't
16 been continued at an even rate and the demand then
17 re-occurs, it will then be up because of the scarcity.

18 COMMISSIONER LEMAN: After expressing some
19 dissatisfaction with the way it has been handled,
20 you go on to make a recommendation that one of the
21 factors has been the controlled interest rate and
22 you would like to see that free and let the market
23 establish the level. That has nothing to do with
24 the availability of funds, has it, from the government?

25 MR. McCANCE: Yes, it has quite a bit to
26 do with it. The government sets the interest rate
27 arbitrarily, and that rate is not kept flexible with
28 other interest rates, particularly conventional
29 interest rates or other bond interest rates, then
30 the mortgage money tends to depart from the market and

end of the year the money became available, towards the
end of 1960, and by this time the demand
had disappeared and it was also late in the year
and the money had been used for a number of programmes
and had been organized again by this time.

I think in 1960 the results were that probably
there were no more money and that I have been
told of the money being made to be used
and the money was being used for all people and
then having to take that back in and so on,
and this was a very serious matter. It depends on
exactly what you are speaking of as to whether
the effect of the money is good or bad,
and I believe the money is being used for building
it is going to be down and when the building has
been completed at all, it is not the money that
is used, it will then be up because of the money.

proposition with the way it has been handled,
you go on to make a recommendation that one of the
factors has been the control of interest rates and
you would like to see this done and let the money
be used for the good. That is the way to do it
the availability of money has to be from the government
to the public. You have to have a plan to
do with it. The government has to be interested in
building, and that is not the same as building with
interest rates on other than interest rates, then

the money is being used to build the market and



1 go into other fields. The interest rate on N.H.A.
2 mortgages has to be sufficiently high at all times
3 to be attractive to the lenders, otherwise they will
4 withdraw and put their money elsewhere, so this in
5 turn has a marked effect upon the industry.

6 We believe if the rate were more flexible
7 this would be eliminated and that we would have a rate
8 which would correspond to the other segments of the
9 market and move up and down with them and conse-
10 quently more or less stabilize to the attractiveness
11 of N.H.A. loaning for the lenders, and that would
12 eliminate this periodic jumping in and withdrawing
13 which we have seen in the past due to a fixed rate
14 which is set by the government and changed periodically
15 but not always often enough and not always completely
16 in response to demands for housing.

17 COMMISSIONER LEMAN: Now, you make the point
18 in your brief that you would rather see less actual
19 government loaning under the N.H.A. Act and just keep
20 the insurance features, et cetera, and let the rate
21 of interest be set by the market.

22 MR. McCANCE: That is right.

23 COMMISSIONER LEMAN: Let us assume that the
24 government after analysing the availability of funds
25 in the market for some time forward feels that some
26 government money must keep on flowing; let us assume
27 that for the purpose of discussion, and then if you
28 freed the rate what would you then visualize should
29 be the policy, keeping an annual amount of govern-
30 ment money available in that market steady and let the



1 rate fluctuate?

2 MR. McCANCE: No, I think you will note in
3 our brief that we have qualified our statement with
4 respect to freeing the rate by saying we feel first
5 of all that the supply of mortgage funds from the
6 private sector should be such that they are competing
7 for loans prior to the freeing of the rate. Now,
8 this again is a conjecture which you must make as
9 to what would happen. There is a possibility,
10 without an ample supply of lenders or lending money, mort-
11 gage money, that the freeing of the rate might not
12 have the effect we would expect, and we have said in
13 the brief that it would appear that the base of mort-
14 gage funds should be adequate, and by the base we mean
15 the base from the private sector, not the government,
16 because, as it is mentioned, it is the direct lending
17 which has caused most of the fluctuation in the industry.

18 COMMISSIONER MACKINTOSH: Why do you say
19 the base of mortgage funds and not just the supply
20 of mortgage funds?

21 MR. McCANCE: We feel that there are
22 probably not enough sources presently eligible to loan
23 for one thing on the money that is in the chartered
24 banks and which is not available for the market.
25 By some means or other we have made some suggestions
26 and we feel that this money should be made available for
27 mortgages or a proper proportion of it. Not all of
28 it, of course, but a proportion of it should be avail-
29 able because it is a very large proportion of the total.
30



1 COMMISSIONER MACKINTOSH: Thank you very much.

2 COMMISSIONER LEMAN: As I read the recom-
3 mendation in Section 2.23 you say:

4 "NHBA advocates that the N.H.A. interest
5 rate be freed to find its own level,
6 as conventional mortgage rates do, just
7 as soon as the base residential mortgage
8 funds becomes sufficiently broad."

9 What sort of measures of this breadth would you suggest?
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1 MR. McCANCE: We have suggested that the
2 amount by which the base is too narrow is the amount
3 by which the government has found it necessary to make
4 direct loans in any one year. The position of the
5 government is supposed to be that of a residual lender
6 to fill the need over and above the amount which can
7 be supplied by the private sector of lenders, and
8 for many years past it has been necessary for the
9 government to loan substantial amounts to make up
10 for the lack of money from this other sector.

11 We believe if this sector could be extended
12 to the point where the money was available, and I
13 may add this is not an impossible situation, it is
14 one which exists in the United States because the
15 United States government does not make direct loans
16 as ours does, it merely insures the loans and the
17 housing market operates completely from the private
18 sector of the economy. If this could be arranged in
19 Canada then probably the freeing of the rate would
20 operate as it does in other parts of the market.

21 As a matter of fact it could very well be,
22 as the gentlemen before us said this morning, that
23 the rate would operate right at the present time in
24 this regard, that it would not depart very much from
25 the present amount because after all these mortgages
26 are insured. The risk is somewhat less on insured
27 mortgages than it is on conventional mortgages and
28 probably they should carry a slightly lower rate.
29 It is quite possible they would remain where they are
30 now if the market operated by direct lending through

now if the market is not by direct lending through
it is quite possible they would remain where they are
probably they should carry a slightly lower rate.
consequently there is no conventional mortgages and
are insured. The risk is somewhat less on insured
the present mortgage because after all these mortgages
his regard, that it would not depart very much from
the rate would operate right at the present time in
as the businessmen believe a rate this certain, that
as a matter of fact it would very well be
operate as it does in other parts of the market.
stands then probably the leveling of the rate would
sector of the economy. It this would be arranged in
housing market again was completely from the private
as was done. It merely transfers the loans and the
United States government does not have direct loans
one which exists in the United States because the
may add this is not an important statement, it is
so the point where the money was available, and I
We believe if this sector could be expanded
for the lack of money from this other sector.
government to loan additional amounts to make up
for many years past it has been necessary for the
be supplied of the private sector of industry, and
to fill the need over and above the amount which can
government is supposed to be that of a residential sector
between loans in any one year. The position of the
by which the government has found it necessary to make
amount by which the bank is too narrow is the amount
Mr. McCAFFREY: We have suggested that the



1 the government.

2 COMMISSIONER LEMAN: Mr. Chairman, I have
3 some more questions relating to N.H.A. operations,
4 but perhaps they could wait until after the luncheon
5 adjournment.

6 THE CHAIRMAN: Very well. We shall adjourn
7 now until 2 o'clock.

8 ---At 12.43 the hearing took recess.
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some more questions relating to W.H.A. operations,
and perhaps they could wait until after the luncheon

THE CHAIRMAN: Very well. We shall adjourn

now until 2 o'clock.

---At 12.45 the meeting took recess.

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1 --- On resuming at 2.00 P.M.

2 THE CHAIRMAN: We shall now resume.

3 COMMISSIONER LEMAN: Mr. McCance, may we
4 continue from where we left off. By the way, would
5 you please be careful to keep your voice up in answering
6 questions, for there are some members of the audience
7 who I am sure would like to hear you. In paragraph 2.9
8 of your brief you state what you feel were the objectives
9 of the National Housing Act, 1954 version, and then
10 you say you do not think they were realized or achieved
11 for very long after the beginning. Where do you get
12 this? Is this your interpretation of what the
13 National Housing Act was designed to do or does your
14 statement stem from some policy pronouncement made
15 by the government about it?

16 MR. McCANCE: Yes, this was outlined at
17 the time of the passage of the National Housing Act
18 by the then minister responsible for the Act, and he
19 stated this, and I believe his actual quotation
20 is quoted in paragraph 4.2 on page 17. It says:

21 "At the time that the Act was presented
22 to Parliament the minister stated 'The main
23 object of the legislation is to broaden
24 the supply of mortgage money by making that
25 form of investment more attractive, increasing
26 the number of lenders and making more money
27 available for mortgage lending.'"

28 COMMISSIONER LEMAN: Yes, but this seems
29 to point rather to means than to final objectives.
30 What do you think were the final objectives, to get a

ending at 2.00 P.M.

THE CHAIRMAN: We shall now resume.

continue from where we left off. At the way, would
you please be careful to keep your voice up in answering
questions, for there are some members of the audience
who I am sure would like to hear you. In paragraph 2.9
of your first report, you state that you feel were not objective
of the National Housing Act, 1934 version, and then
you say you do not think they were satisfied or satisfied
for very long after the beginning. Where do you get
this? Is this your interpretation of what the
National Housing Act was designed to do or does your
statement stem from some policy pronouncement made
by the Government about it?
MR. McCAGHER: Yes, this was outlined at
the time of the passage of the National Housing Act
by the then Minister responsible for the Act, and he
stated this, and I believe this was the
is quoted in paragraph 2.9 of page 17. It says:
"At the time that the Act was presented
to Parliament the Minister stated that the main
object of the legislation is to provide
the supply of mortgage money by making that
form of investment more attractive, increase
the number of lenders and making more money
available for mortgage lending."
THE CHAIRMAN: Yes, but this seems
to point rather to make than to final objectives.
What do you think were the final objectives, to get a



1 bigger stock of housing built in view of what they
2 foresaw was the trend in increases in population, and
3 so on?

4 MR. McCANCE: I think the government
5 realized at that time that it would have to find other
6 sources for mortgage money if the projected increases
7 in housing were to be met. It was quite obvious that
8 prior to 1954 there were not enough lenders under the
9 previous National Housing legislation to adequately
10 serve this field, and I believe that was the fundamental
11 reason for passing the Act; and it was also intended
12 at that time that these funds, if possible, should
13 come from the private sector. I do not think it
14 was contemplated at that time that the government
15 would enter this field of direct lending as exclusively
16 as it has done since. At least, these are the
17 statements of the government at that time.

18 COMMISSIONER LEMAN: If those objectives,
19 which you feel were the first, were not realized for
20 very long after the passage of the Act is it possible
21 that perhaps the objectives had changed and they
22 began to pay more attention to unemployment conditions,
23 and that sort of thing?

24 MR. McCANCE: It would not appear so because
25 later statements by the Minister of Public Works,
26 as late as 1961, have borne out the fact that the
27 objectives have not changed. These are quoted in the body
28 of the text too. The fact that the Act achieved
29 its purpose for only a short time was largely due to
30 the fact that the chartered banks entered the field



1 at that time and did lend exclusively for a few years
2 thereafter and then gradually withdrew again, so that
3 we are now back to somewhere near the position that
4 existed prior to 1954.

5 COMMISSIONER LEMAN: I am not challenging
6 your statement at all ---

7 MR. McCANCE: No.

8 COMMISSIONER LEMAN: But I am just wondering
9 whether I am sure that the objectives have remained
10 stable right through the piece or have changed from
11 time to time. That does not seem to be too clear
12 from the performance.

13 MR. McCANCE: Well, in Mr. Walker's statements
14 I think he amplifies and continues to make in effect
15 the same statement.

16 COMMISSIONER LEMAN: Returning to what you
17 believe should have remained the main objective, you
18 suggest that therefore the C.M.H.C. should look upon
19 itself as a residual lender in the mortgaging field.
20 Could you list for us what you think its functions
21 could be as a residual lender?

22 MR. McCANCE: Yes. As a residual lender
23 it could lend in those areas of the country which
24 are completely unserved by other mortgage lenders,
25 and also it could assist or be a real residual lender
26 in those areas where the conventional or regular
27 mortgage lenders under the Act are not meeting the
28 demand. The more remote sections of the country
29 periodically suffer from a lack of mortgage funds.
30 It is a tendency of the lenders under the National



at that time and did last exclusively for a few years

we are now back to somewhere near the position we

started prior to 1944.

CONSTITUTIONAL LAW: I am not dissatisfied.

Your first point of all --

MR. BENTLEY: No.

CONSTITUTIONAL LAW: But I am just wondering

whether I am sure that the situation has remained

stable right through the place of even changed from

time to time. That does not seem to be the case

from the perspective.

MR. BENTLEY: Well, for the purpose of the

I think the English and American law is still

CONSTITUTIONAL LAW: Referring to what you

believe should have remained the same objective, you

argue that there are no limits upon it, don't you?

That is a natural factor in the law of the land.

Could you list for us what you think the limitations

are in a natural factor?

MR. BENTLEY: Yes. As a natural factor

it would tend in those areas of the country which

are completely unreserved by other sovereign powers

and also in which there is no real restriction of

in those areas where the conventional or regular

constitutional law has not been established, and

demanded. The more varied sections of the country

periodically suffer from a lack of adequate facilities

it is a tendency of the law to be in the hands of



1 Housing Act to make their loans available where they
2 are cheapest to put out, where they are cheapest to
3 service and where they are easiest to administer,
4 and so forth. Those areas naturally are the ones
5 closest to the offices where they have established,
6 and by the same token these are usually in the larger
7 centres. So, the more outlying sections of Canada
8 suffer periodically from lack of mortgage money and
9 sometimes they do not have any.

10 COMMISSIONER LEMAN: Would you see them
11 operating what they call a "mortgage bank"?

12 MR. McCANCE: It is possible they could
13 operate the mortgage bank. This has never been
14 established in Canada and we have made no suggestions
15 in this connection in our submission. This is one
16 other possibility of an increased supply of mortgage
17 funds, depending on how the bank is established, of
18 course.

19 COMMISSIONER LEMAN: But you still would not
20 advocate their lending when they felt that the volume
21 of construction was not sufficient?

22 MR. McCANCE: This has had a very disrupting
23 effect on the industry. It might be done mildly but
24 to the extent it has been done in the past it is very
25 disrupting because we believe that the considerations
26 under which the money was made available were other than
27 the need for housing at the time; considerations such
28 as the need for additional employment and, conversely,
29 at other times conditions which seem to indicate a
30 reduction in government borrowing in connection with

Housing Act to make their forms available when they
are expected to put out, where they are expected to
service and where they are subject to administration,
and so forth. These areas naturally are the ones
closest to the officer where they have established,
and by the same token these are usually in the latter
quarters. So, the more ordinary quarters of Canada
after periodically from back of mortgage money and
sometimes they do not have any.

QUESTIONS: Would you see them

operating what they call a "mortgage bank"?
MR. MAGANOFF: It is possible they could
operate the mortgage bank. This has never been
established in Canada and I have made no very definite
in this connection in our submission. This is one
other possibility of an increased supply of mortgage
funds, depending on how the bank is established, of

QUESTIONS: Would you see them
advocate their business when they felt that the volume
of operations was not sufficient?

MR. MAGANOFF: This is not a very straightforward
effect on the industry. It might be more likely, but
to the extent it has been done in the past it is very
distinguishing, because we believe that the consideration
under which the money was made available was a clear and
the need for housing at the time; considerations such
as the need for additional employment and so forth,
at other times conditions might lead to a more
reduction in government involvement in collecting and



1 construction. These are all right in themselves
2 but it seems unfair that the residential construction
3 industry should be the one that has to absorb these
4 comings and goings on its own account, and it has been
5 very difficult for the industry to do so.

6 COMMISSIONER LEMAN: What puzzles me, Mr.
7 McCance, is that I am wondering if through the device
8 of freeing the interest rate and letting the market
9 establish an interest rate for the C.M.H.C. loan,
10 ~~you~~ you would then avoid these fluctuations?

11 MR. McCANCE: We believe we would because
12 there is a good indication that during this time the
13 government was doing its direct lending, and this
14 is illustrated on page 63, the rate of conventional
15 lending carried on at a more or less uniform rate.
16 It did not show the same wild fluctuations that the
17 C.M.H.C. did. Line "B" on the chart on the last
18 page shows the conventional mortgage loans, and they
19 follow a much less violent pattern. It is our
20 contention that the same thing would happen if the
21 C.M.H.C. interest rate were free. We would not be
22 faced with these violent fluctuations occasioned
23 by both direct lending and introductions of the
24 banks and their subsequent withdrawal. These are
25 the factors that cause the rate of lending to fluctuate
26 so wildly.

27 COMMISSIONER LEMAN: This seems to put
28 you in the category of people who believe in free
29 markets, to a certain extent.

30 MR. McCANCE: I think that is a fair statement.



1 COMMISSIONER LEMAN: In that light, then,
2 I am a little puzzled by the suggestion you make in
3 paragraph 2.21 where you seem to be for one reason
4 or another inclined to introduce a little paternalism.
5 Why would you worry about what the seller of a house
6 should do with the funds he obtains through getting
7 a mortgage loan?

8 MR. McCANCE: Well, on March 5 of this year
9 our Association presented a brief to the Minister of
10 Public Works advocating strongly that the government
11 extend the provisions of the National Housing Act
12 to include the insuring of mortgages on existing housing.
13 We did not ask for government money; in fact, we were
14 asking not that they put it in but rather to offer
15 the insurance provisions of the Act. At that time
16 the minister felt the demands of the existing house
17 market might be so extensive that they would siphon
18 a considerable amount of money away from the new
19 market and therefore cause a reduction in new house
20 building and, consequently, a reduction in employment.
21 At that time we discussed with him the possibility of
22 placing certain limitations on who could be eligible
23 for an insured mortgage on an existing house. This
24 is merely one of the suggestions, amplified again
25 in the body of the brief, as to a possibility for
26 reducing this flow at least until such time as it
27 could be determined how extensive it was, for it
28 is only conjecture as to how much money will be
29 siphoned away. In the United States, if I may use
30 that example again, under the Federal Housing

COMMISSIONER GENERAL: In fact, then,

I am a little puzzled by the suggestion you make in

paragraph 2.21 where you seem to be not one reason

or another inclined to introduce a little restriction

why would you worry about the action of a house

should do with the funds he obtains through taxation

a mortgage loan?

MR. MCGILL: Well, on March 11 of this year

our Association presented a bill to the Minister of

Public Works advocating generally that the government

extend the provisions of the War and Housing Act

to include the financing of mortgages on existing housing

We did not ask for government money in fact, we were

asking not that the government put it in but rather to cover

the insurance portions of the Act. At that time

the Minister felt the demand of the existing house

market might be so extensive that they would absorb

a considerable amount of money away from the new

market and therefore cause a reduction in new houses

building and, consequently, a reduction in employment

At that time we discussed with him the possibility of

introducing certain limits on the who could be eligible

for an insured mortgage on an existing house. This

is merely one of the suggestions suggested again

in the body of the bill, as to a restriction, but

regarding this flow of funds until such time as it

could be determined how extensive it was, for it

is only conjecture as to how much money will be

absorbed away. In the United States, if I may use

that example again, under the Federal Housing



1 Administration they have had equal financing or
2 insuring of mortgages by F.H.A. since 1934. At the
3 present time about two-thirds of all the money that
4 F.H.A. loans is going on existing houses and one-third
5 on new houses. So it is an extensive thing. However,
6 we feel it is sufficiently important to warrant a
7 start, and one way might be to impose certain
8 limitations but not necessarily these but, as I
9 have explained, they came about through our discussions
10 with the government on this very matter.

11 COMMISSIONER LEMAN: But you argue somewhere
12 else in your brief that if insured mortgages were
13 extended to existing houses, this would tend to
14 stimulate the construction of new housing.

15 MR. McCANCE: We believe that it would.
16 Here again it is a matter of conjecture. We have a
17 very strong precedent in this in communications which
18 we have had with the Administrator of the Housing
19 and Home Finance Agency, who undoubtedly subscribes
20 to this belief. We think it would. There are many
21 complex factors involved, however. There are a great
22 many things to be said pro and con, but this is
23 something we think would be very beneficial. We
24 believe there would be some stimulation. How great
25 it would be is problematical.

26 COMMISSIONER LEMAN: At any rate, you do
27 argue this?

28 MR. McCANCE: That is right.

29 COMMISSIONER LEMAN: You believe it would
30 do that, so that would meet the government objection

Administration they have not equal financing of
the work of the Government by F.R.A. and the

present time about two-thirds of all the money that
F.R.A. is going to expend is being raised by taxation
on new houses. So it is an extensive tax, however,

we feel it is sufficiently important to require a

study, and the way might be to impose certain

limitations but not necessarily too many, as I

have explained, very early action through the Administration

with the Government on this very matter

CONSTITUTIONAL LIMITS. But you agree somewhere

else in your mind that it should not be done

extended to existing houses, this would lead to

extending the construction of new houses.

Mr. WOODWARD: We believe that it should

have again to be a matter of necessity. We have a

very strong impression in this in connection with which

we have had with the Administration of the House,

and some Finance Agency, the United States and others

to this effect. We think it would. There are many

complex factors involved, however, there are a great

many things to be said pro and con, but this is

something we think would be very profitable. We

believe there would be some action done. How much

it would be an important

CONSTITUTIONAL LIMITS. At a time, it is

large scale

Mr. WOODWARD: That is right.

CONSTITUTIONAL LIMITS. You are not at all

so that, so that would mean the Government in action



1 in a large part?

2 MR. McCANCE: Yes.

3 COMMISSIONER LEMAN: If you are right,
4 it would meet their objection in a large part.

5 MR. McCANCE: That is right.

6 COMMISSIONER LEMAN: So, in paragraph 2.21,
7 when you start pestering the poor seller of the house
8 it is a concession to the fears of the government,
9 that is all?

10 MR. McCANCE: That is right.

11 COMMISSIONER LEMAN: It is not really your
12 idea?

13 MR. McCANCE: No. We did not originally
14 suggest this. I may say that these restrictions do
15 not exist in the United States. There are no differences
16 between new and existing houses in their Act.

17 COMMISSIONER LEMAN: Mr. McCance, I do not
18 wish to monopolize the questioning here but there are
19 two or three questions I should like to ask you in
20 relation to the remarks you make about chartered banks.

21 COMMISSIONER GIBSON: May I ask a question
22 in connection with the subject you have been discussing,
23 Mr. Leman?

24 COMMISSIONER LEMAN: Yes.

25 COMMISSIONER GIBSON: In proposing that
26 existing housing mortgages be insured under the
27 N.H.A., I take it you are saying that you do not
28 think existing free market mortgages ~~are doing~~
29 an adequate job there, is that correct?

30 MR. McCANCE: That is correct, sir.



In a large party?

MR. McCAW: Yes.

COMMISSIONER LAMAR: In your opinion,

it would meet their objection to a law's intent.

MR. McCAW: Yes, it might.

COMMISSIONER LAMAR: But in a group of 2,500,

when you start passing the law, all of the houses

is in a position to the laws of the Government,

that is all?

MR. McCAW: That is right.

COMMISSIONER LAMAR: It is not really your

idea?

MR. McCAW: No. We did not originally

suggest this. I may say that these restrictions do

not exist in the United States, there are no differences

between new and existing houses in their walls.

COMMISSIONER LAMAR: Mr. McCAW, I do not

wish to negotiate the question of new but there are

two or three questions I should like to ask you in

relation to the houses you have just mentioned.

COMMISSIONER LAMAR: May I ask a question

in connection with the subject you have been discussing?

COMMISSIONER LAMAR: In a country that

existing housing mortgages for new and old houses the

same? I think is you are saying that you do not

think existing houses would mortgage and being

as mortgage for them, is that correct?

MR. McCAW: That is correct, yes.



1 COMMISSIONER GIBSON: Why? What is the
2 matter with this market? How is it falling down and
3 what do you see as the defects in the market for
4 mortgages on existing houses?

5 MR. McCANCE: In the first place there is
6 a certain amount of discrimination, shall we say,
7 as between the person who wishes to go and purchase
8 a new house today as opposed to a person who might
9 wish to live in a more central section and buy an
10 existing house, where the existing house is limited in its
11 financing to the amount that can be raised either
12 on a conventional mortgage or on a conventional mortgage
13 supplemented by a second mortgage. We immediately get
14 into this problem of having excessively high rates
15 through the discount system, and so forth, which is
16 common with the second mortgage. It seems unfair
17 in a way that our whole federal legislation should be,
18 in effect, forcing people into the outskirts of our
19 cities to the exclusion of the more central sections,
20 and this is in effect what is happening because this
21 is where the new housing is built and this is not
22 always best for the people who would like to have
23 houses. Again we must agree with the fact that this
24 down-payment is a very crucial factor, and I think
25 I have ample support for the fact that the down-payment
26 is much more of a factor in new house sales than is
27 the interest rate. So we arrive at the point where
28 the prospective purchaser of an existing house finds
29 that he must have a considerably greater cash equity
30 in order to purchase that house or must assume very



GENERAL JOHN GILSON: What is the

master when the master has in it facilities down and

what do you see as the deficit in the market for

mortgages on existing houses?

MR. McCAIG: In the first place there is

a certain amount of discrimination, which we say,

on between the portion which is to be sold and

a new house today as opposed to a house which might

with to live in a more central location and pay in

existing houses, where the existing houses are located in the

transition to the second place and the third place

on a conventional mortgage on a conventional mortgage

supplemented by a second mortgage. We immediately see

into this problem of having extremely high rates

through the discount system and so forth, which is

common with the second mortgage, in some respects

in a way that our whole Federal Reserve should be

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I have only support for the fact that the Government

is much more of a factor in new housing than in

the existing stock. So we must be in the place where

the prospective purchaser of an existing house finds

that he must have a considerably greater cash equity

in order to purchase that house or to assume very



1 heavy financing. This results in the fact that he finds
2 himself unable to purchase the house because he cannot
3 carry the load or he cannot raise the necessary
4 financing because he has not got the down-payment.
5 His only recourse is to go and purchase a new house
6 financed under the National Housing Act. It raises
7 the question: is this making the best use of our
8 stock of housing?

9 THE CHAIRMAN: What happens to that old
10 house that he did not buy?

11 MR. McCANCE: The owner remains in it, sir.

12 THE CHAIRMAN: Perhaps he reduces the price
13 until he can get rid of it. Perhaps someone else comes
14 along and is prepared to pay the original price he
15 puts on it. Is it not a matter of supply and demand,
16 that if he wants to sell the house or must sell the
17 house for some reason then he is going to sell it
18 for what he can get?



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MR. GALLAGHER: What response to that do

house that he did not buy?

MR. MOCHMANN: The owner remains in it, sir.

THE CHAIRMAN: Perhaps he reduces his price

until he can get rid of it. Perhaps he sells it at a loss

along and is prepared to pay the mortgage price he

paid on it. Is it not a matter of supply and demand?

That if he wants to sell the house he must sell it

because for some reason he is going to sell it

for what he can get?



1 MR. McCANCE: Quite often the house, through
2 a number of years, has become unsuited to his needs.

3 COMMISSIONER GIBSON: Then if he has to
4 sell it he has to take what the market will pay.

5 MR. McCANCE: In order to get enough money
6 back to buy another house -- that is quite often
7 difficult to do.

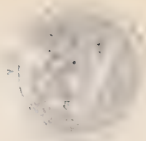
8 COMMISSIONER GIBSON: Why should he get
9 enough money out of an old house to buy a new one?

10 MR. McCANCE: Well, he might want to buy
11 another old house more suited to his needs.

12 COMMISSIONER GIBSON: I do not see that
13 you accomplish very much.

14 MR. McCANCE: Well, in general, we have two
15 classes of older houses. We have a great number of
16 houses, small houses, which were built after the war.
17 They were occupied by young families and now those
18 families have grown up and the houses are too small
19 for them. They find it extremely difficult to get
20 enough equity out of their old house, and this is
21 without selling the house at a great profit. In
22 fact, they find it difficult to get the money they put
23 into it out of it because the mortgage has been con-
24 siderably reduced over the years. Likewise, for
25 people with limited incomes, we could not duplicate
26 the building of those houses at the same prices today.
27 If our suggestion were adopted this would open a
28 large supply of modestly priced houses to those who
29 could afford them and who are now unable to get them.

30 COMMISSIONER GIBSON: Very well. Where are



MR. McCAFFREY: Quite often the houses, through

2 a number of years, are become mortgaged to the hilt.

COMMISSIONER GIBSON: When he has to

5 MR. McCAFFREY: In order to get enough money

6 back to buy another house -- that is quite often

7 difficult to do.

COMMISSIONER GIBSON: Why should he pay

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15 houses, small houses, which were built after the war.

16 They were occupied by young families and now these

17 families have grown so and the houses are too small

18 for them. They find it extremely difficult to get

19 enough equity out of their old houses, and have to

20 without selling the house at a great profit. In

21 fact, they find it difficult to get the money they put

22 into it out of it because the mortgage has been con-

23 siderably reduced over the years. That is, for

24 people with limited incomes, we could not duplicate

25 the building of these houses at the same prices today.

26 If our suggestion were adopted this would mean a

27 large supply of modestly priced houses for those who

28 could afford them and who are now unable to get them.

29 Very truly, yours,



1 these people living now?

2 MR. McCANCE: They are probably tenants.

3 COMMISSIONER BROWN: What would this do
4 to the prices of those used houses?

5 MR. McCANCE: In the first place we would
6 not anticipate there was going to be such a flood of
7 money for this purpose that every existing house in
8 the country is going to be refinanced. I think
9 this would be a fairly selective thing on the part
10 of the lenders because they have only a limited amount
11 to put out. I do not envisage the flood gates being
12 opened, by any means. This would probably take place
13 quite slowly and I do not believe the fact that the
14 down payment is going to be lower it will necessarily
15 affect the selling prices of the houses because we
16 are admittedly in a very competitive market at the
17 present time. The market is extremely competitive,
18 both in new houses and old houses.

19 THE CHAIRMAN: It is not as if there were
20 a number of used houses lying on the market, up for
21 sale and could not be sold.

22 MR. McCANCE: There are, in certain
23 areas, but it is not true nationally. Certain areas
24 do have this condition.

25 THE CHAIRMAN: Does that not in itself indi-
26 cate there is a fair market?

27 MR. McCANCE: The market is certainly as
28 busy physically as it has been. It is continuing at
29 a fairly steady level at the present time, but not at
30

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busy physically as it has been. It is somewhat as

a fairly steady level at the present time, but not as



1 the peaks of a few years ago, which probably were
2 unnatural anyway.

3 COMMISSIONER GIBSON: You are saying, in
4 effect, that this would produce greater mobility in
5 housing and a more fluid market situation, and
6 therefore a better use of housing?

7 MR. McCANCE: That is right.

8 COMMISSIONER GIBSON: You are saying that
9 this is the real difference between the movement of
10 existing houses and the movement of new houses.
11 Basically you are saying there is nothing else, that
12 this is the difference?

13 MR. McCANCE: Except that there is one
14 other question which we have not dealt with fully.
15 It is the question relating to the conventional mort-
16 gage and the second mortgage, which is perhaps a little
17 away from this. This is pretty well formally established
18 by people who have had experience in the field. If
19 it is acceptable, sir, I would read you four brief
20 paragraphs from a report of the Administrator of the
21 Housing and Home Finance Agency in the United States
22 who has commented quite reasonably on this very matter.

23 THE CHAIRMAN: Is it a long statement?

24 MR. McCANCE: It is just four brief para-
25 graphs, sir. This is from a statement by Dr. Robert
26 Weaver, Administrator of the Home Finance Agency, and
27 I must say they have been doing this in the United
28 States for a great number of years. He says:

the peaks of a few years ago, which probably were
unnatural anyway.

COMMISSIONER GIBSON: You are a young man,

effect, that this would produce greater mobility in

housing and a more fluid market situation, and

therefore a better use of resources.

MR. McCAW: That is right.

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Weaver, Administrator of the Home Finance Agency, and

I must say they have been doing this in the United

States for a great number of years. He says:



1 " In addition to Mr. Hardy's
2 observations --"

3 And I may say Mr. Hardy is the FHA Commissioner --

4 "-- it may be of value to note the
5 importance of existing home financing
6 to the sale of new homes and the aid
7 which adequate existing home finance
8 gives in the upgrading of housing quality
9 and standards of occupancy.

10 Many potential purchasers of new
11 homes are present owners of existing homes.
12 In large part, their resources for down
13 payments on new homes consist of the
14 equity in their present home, which can be
15 made available only by advantageous sale
16 to a new owner. Adequate financing on
17 reasonable terms for the purchaser of the
18 existing home is, of course, crucial to
19 the arrangement of a profitable sale for
20 the prospective new home buyer.

21 To the existing home purchaser,
22 the availability of effective financing
23 may mean his best opportunity to improve
24 his housing standards by moving from
25 less satisfactory accommodations elsewhere --
26 perhaps requiring no greater monthly
27 expenses for housing in his new home
28 than in the previous unit.

29 Other families who already
30

In addition to Mr. Hardy's

observations --

And I may say Mr. Hardy is the WPA Commissioner --

-- it may be of value to have the

importance of existing home financing

to the sale of new homes and the aid

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Many potential purchasers of new

homes are present owners of existing homes.

In large part, these resources have been

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type of small, cheap home, which can be

made available only by extraordinary sale

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perhaps requiring no greater sacrifice

because the housing in the new home

than in the previous unit.

Other factors who already



1 "own existing homes may have their best
2 chances to modernize and improve that home
3 if adequate existing home mortgage funds
4 are available at reasonable cost."

5
6 I think Mr. Weaver is in a position to make that
7 statement with the experience that they have had.

8 COMMISSIONER GIBSON: Is there any parti-
9 cular reason why the government, having insured the
10 sale of the new house, when it comes to the sale of
11 the old house, should go a further step and take the
12 risk involved in that? Is it your motivation to
13 get a better demand for new houses?

14 MR. McCANCE: I think our motivation,
15 Mr. Gibson, is to create a market which is more
16 fluid. We do have another motive in as much as our
17 industry today, in effect, cannot take trade-in.
18 We have no trade-in market in the housing business,
19 because if the original owner is unable to sell his
20 house we, as builders, cannot take his house in and
21 dispose of it. It is like the car business. If
22 they did not take your old car in I do not know how
23 many new cars people would buy. Perhaps the parallel
24 is not exact, but the main fact is that existing
25 houses are just stagnant. You cannot move them.
26 The terms are so unattractive that it is not possible
27 for builders to trade in houses under the present
28 circumstances.

29 COMMISSIONER LEMAN: Mr. McCance, you
30 suggest that N.H.A. mortgage insurance be



1 extended to existing houses, and you say in the same
2 manner and to the same extent as mortgages are presently
3 insured on new houses under the act. That seems to
4 me a little over-simplification. Is it quite that simple?
5 Under the new housing provisions and regulations of
6 C.H.M.C. there are quite a lot of inspection systems,
7 and quite a lot of standards set out. Do you think
8 they could develop the same kind of standards for
9 existing houses?

10 MR. McCANCE: I do not think it would be
11 necessary, Mr. Leman. I think the thing to do is
12 to establish a good appraisal system so that the
13 corporation would be able to appraise the houses
14 and set a proper value on them. The amount of the
15 new mortgage would only be based on their appraisal.
16 It would not have any relation to the owners ideas
17 of what his house might be worth. This again is
18 similar to what happens in the United States. The
19 appraisal is a closer thing and it depends on the
20 appraisal, and the amount is based on this appraisal.

21 COMMISSIONER LEMAN: But the terms would
22 not necessarily be the same?

23 MR. McCANCE: They are identical in the
24 United States. The term and the amount and the
25 interest rate are the same. There is no difference
26 and I think again we come back to the matter of the
27 appraisal.

28 COMMISSIONER LEMAN: What would you do about
29 a 35-year mortgage on a house that is already 50 years
30 old.

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manner and to the same extent as mortgages are presently
insured on new houses under the act. That seems to
me a little over-simplification. As to date that single
Under the new operating procedure and restrictions of
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and set a proper value on them. The amount of the
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It would not have any relation to the owner's idea
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Committee's idea: that the owner would

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MR. McCABE: They are in detail in the
United States. The term and the amount and the
interest rate are the same. There is no difference
and I think again we come back to the matter of the

COMMISSIONER LAMM: What would you do about
a 25-year mortgage on a house that is only 20 years



1 MR. McCANCE: I think, again, the appraisal
2 is the determining factor. This is apparently the
3 way it works.

4 COMMISSIONER LEMAN: And these would be
5 also for the same percentages, up to 80 per cent
6 and 90 per cent on existing houses?

7 MR. McCANCE: Yes, that is right.

8 COMMISSIONER LEMAN: What, in your view,
9 has prevented the development of a commercial insurance
10 system for mortgages?

11 MR. McCANCE: Well, I am sorry I cannot
12 say. I do not know. Other industries have certainly
13 done it. That is true. Perhaps the volume of funds
14 involved in residual mortgages is the factor that
15 has prevented its developing commercially.

16 COMMISSIONER LEMAN: Too large, you mean?

17 MR. McCANCE: Too large, yes. Under the
18 N.H.A. act there is a fund of some \$90 million now
19 accumulated in the mortgage insurance fund to back
20 up these government insurance mortgages, and incidentally
21 this fund is paid for by the borrower because he pays
22 2 per cent of the mortgage in each case, and this is
23 part of the funds.

24 COMMISSIONER LEMAN: He would do that under
25 the commercial system too?

26 MR. McCANCE: Yes.

27 COMMISSIONER LEMAN: So that the premium
28 take-in would be quite large?

29 MR. McCANCE: It is, but it is not at the
30

MR. TOLSON: I think finally the question

of the following person. This is extremely

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also for the same person, up to the year

and 90 per cent on existing records.

MR. TOLSON: Yes, that is right.

COMMISSIONER TOLSON: That is your view.

has prevented the development of a permanent

status for nonpersons?

MR. TOLSON: Well, I do not think

any. I do not know. I am not sure we have completely

done it. That is true. I am not sure of that.

involved in the whole matter is the fact that

has prevented the development of a permanent

COMMISSIONER TOLSON: Yes, I see, and we are

MR. TOLSON: The larger was, I think the

M.R.A. and there is a kind of a limitation now

accumulated in the whole thing, I am not sure

up those Government records, and not necessarily

this kind is, I think, the whole thing, I am not

a new sort of the whole thing, and that is

part of the thing.

COMMISSIONER TOLSON: He would be a last order

the general situation?

MR. TOLSON: Yes.

COMMISSIONER TOLSON: So that the first

therein would be made later?

MR. TOLSON: In 1914, and it is not the



1 government expense and it is not at the lender's expense.
2 I think the statement was made this morning that it
3 was at the lender's expense, but I believe it is at
4 the borrower's expense.

5 COMMISSIONER BROWN: Have you discussed at
6 all or investigated at all the possibility of insurance
7 for only that proportion that is above the standard
8 ratio?

9 MR. McCANCE: Yes, we have given a great
10 deal of consideration to that. It seems a reasonable
11 proposition, in our thinking, that if conventional
12 lenders are now prepared to give up to 66 2/3 per
13 cent without insurance, that the proportion above
14 that, to whatever limit it goes, might be the portion
15 which should carry the insurance, and not the whole
16 loan.

17 COMMISSIONER BROWN: Have you discussed this
18 at all with other people? Have you other people's
19 ideas about it in the mortgage business?

20 MR. McCANCE: Yes, we have. However, I
21 understand there were certain drawbacks to this,
22 particularly when the original borrower comes to re-
23 sell the mortgage because his market is somewhat
24 limited due to the fact that certain investors can
25 only invest in mortgages which are 100 per cent
26 insured, and this is a disadvantage, though how great
27 a disadvantage I do not know. That was really the
28 reason why the N.H.A. insurance was raised from 98 per
29 cent to 100 per cent to overcome this objection. There
30

Government expense and it is not at the lender's expense.

I think the statement was made this morning that it

was at the lender's expense, but I believe it is at

COMMISSIONER BROWN: Have you discussed at

all or investigated at all the possibility of insurance

for only that protection that is above the standard

of

MR. WOODWARD: Yes, we have given a great

deal of consideration to that. It seems a reasonable

proposition, in our thinking, that if conventional

lenders are now prepared to give up to 2 1/2 per

cent without insurance, what the borrower should

that, to what extent it goes, might be the portion

which should carry the insurance, and not the whole

loan

COMMISSIONER BROWN: Have you discussed this

at all with other people? Have you other people's

ideas about it in the mortgage industry?

MR. WOODWARD: Yes, we have. However, I

understand there were certain drawbacks to this,

particularly when the original borrower comes to re-

sell the mortgage because his market is somewhat

limited due to the fact that certain investors can

only invest in mortgages which are 100 per cent

insured, and this is a disadvantage. Though now there

a disadvantage I do not know. That was really one

reason why the N.I.A. insurance was raised from 90 per

cent to 100 per cent to overcome this objection. There



1 are many NHA mortgages that are not 100 per cent
2 insured.

3 COMMISSIONER BROWN: But would this open
4 the way to people who are lending under standard
5 mortgages to lend on a higher basis?

6 MR. McCANCE: It would seem to be the case.

7 COMMISSIONER BROWN: Have you discussed
8 this with people in the conventional mortgage field?

9 MR. McCANCE: I cannot say our agency has.
10 We have discussed it with the government.
11 It would seem a valid argument, though, for protecting
12 the interests of the investors in these companies
13 if the mortgages were insured above that. It would
14 seem a reasonable precaution to protect the investors.

15 COMMISSIONER LEMAN: In paragraph 2.10,
16 Mr. McCance, you list the reasons, in order of pre-
17 cedence, why you believe the banks, after having been
18 heavily in N.H.A. mortgage loans, substantially with-
19 drew from the field, and you list them as follows:
20 the ceiling on interest rates,

21 that banks from their experience feel
22 that NHA mortgages are not really 100 per cent insured,
23 and then you talk about the liquidity of mortgage,
24 or at least the marketability and liquidity. I am
25 a little puzzled by your ranking and by your statement
26 that the banks have, from their experience,
27 felt that N.H.A. mortgages are not really 100 per cent
28 insured. What other loans do they make in substance
29 that are 100 per cent insured? Why would that make
30 the banks so squeamish?



1 MR. McCANCE: That, I do not know. It is
2 probably an impression of mine. I feel that the
3 banks went into the matter of mortgage lending
4 with some hesitance and some reluctance. I
5 think they were probably talked into it in the first
6 place and during their period of lending, at least
7 at the level with which we came in contact with them,
8 at the branch level, there seemed to be a great dis-
9 interestedness on the part of the banks to stay in
10 this business. Perhaps it is due to the fact that
11 they had not been in it for years before.

12
13
14 They did not have staffs that felt comfortable in this
15 business and they did not have the desired equipment
16 to deal with it. It seemed to us that they were
17 breathing a sigh of relief the minute that they were
18 able to get out of it. This is my impression, but
19 I think we should state it. There is also some
20 question as to whether they would re-enter the field,
21 even today, if the 6 per cent limitation were, in
22 fact, lifted and if the bank acts were amended. We
23 are not totally convinced that they would come back
24 in force.

25 One indication of this is that during the
26 last year their existing holdings of mortgages de-
27 creased by some \$18 million and they did not make
28 any attempt to replace these even though they could
29 have done so at the 6 per cent limit. This would
30 indicate they have a declining interest and that is

Mr. McGowan: That I do not know. It is

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able to get out of it. This is my impression, but

I think we should state it. There is also some

question as to whether they would re-enter the field

even today. If the 6 per cent limitation were in

fact, lifted and if the bank were re-organized, we

are not totally convinced that they would come back

in force.

One indication of this is that during the

last year their existing holdings of securities de-

creased by some \$15 million and they did not make

any attempt to replace these even though they could

have done so at the 6 per cent limit. This would

indicate they have a feeling of interest and that is



1 why, in our submission, we have suggested that in the
2 event they do come back into mortgage lending that
3 possibly some other means could be found to attract
4 the personal savings of a portion of Canadians which
5 would ultimately find its way into mortgage lending.

6 COMMISSIONER LEMAN: I am not a banker myself
7 but I am just a little surprised that you seem to
8 think that their reason was because the loans
9 were not 100 per cent insured. Most of their other
10 lending activities involve a certain amount of risk
11 and if you consider the yields they could get in
12 this field, as compared with their yields in other
13 fields, it seems strange they would not accept one single
14 bit of risk in this sector.

15 I am only questioning whether this is a true reason.

16 MR. McCANCE: Probably a more significant
17 one is that they had built up what they considered to
18 be a prudent portfolio of mortgages, and when they
19 reached that point they felt they should stop.

20 THE CHAIRMAN: Did they not stop because of
21 the 6 per cent ceiling?

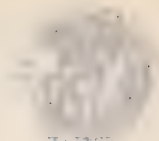
22 MR. McCANCE: They had started to withdraw
23 prior to that.

24 COMMISSIONER LEMAN: I do not think we need to
25 labour that point too much, but practically in the same
26 breath that you suggest the banks should be re-
27 interested in mortgages, in paragraph 4.43 you refer
28 there to an alternative -- not necessarily an alternative
29 but an additional suggestion, and you suggest the
30 passage of legislation which would permit the establish-



1 ment of building and loan associations and a mortgage
2 banking system similar to that in the United States.
3 Now, the discussions we had this morning would seem
4 to indicate that there were loan companies in Canada
5 that started out as building societies and loan
6 associations, and these practically disappeared as
7 such. They have taken some other form. What do
8 you think that these proposed building societies
9 and loan associations would do that the existing
10 loan companies and other sources of mortgage funds,
11 institutional sources, do not do? What would be
12 the particular form that these things would take
13 that would enable them to service this market well?

14 MR. McCANCE: It is our understanding that
15 in Great Britain in particular the building societies
16 make high percentage loans. 90 per cent is not at all
17 unusual on loans which are not insured. This, of
18 course, is not taking place here. Likewise in the
19 United States their savings and loan associations
20 loan actively under their federal housing administration.
21 Our loan and trust companies, by and large, do not
22 participate actively, and they explained to you this
23 morning why they do not. We are only making
24 suggestions that are drawn from our observation that
25 the large accumulation of private savings in the banks
26 is not at present available for mortgage lending, and
27 we are merely suggesting that other possible agencies
28 should be established so that people can put their
29 savings in other institutions which would lend on
30 mortgages.



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and loan associations would do that the existing
loan companies and other sources of mortgage funds
institutional sources, do not do? What would be
the particular form that these things would take
that would enable them to meet the needs of the
country? MR. McLELLAN: It is our understanding that
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take high percentage loans. 50 per cent is not at all
unusual on loans which are not insured. This, of
course, is not a very high place here. Lending in the
United States their savings and loan associations
loan actively under their Federal Housing Administration.
Our loan and trust companies, it was pointed out,
participate actively, and they explained to you this
morning why they do not. It is only mortgage
questions that are drawn from our conversation that
the large accumulation of private savings in the banks
is not at present available for mortgage lending, and
we are merely suggesting that it is possible agencies
should be established as such people can put their
savings in other institutions which would lend on
mortgages.



1 COMMISSIONER LEMAN: How much of a shift
2 would you visualize?

3 MR. McCANCE: I would not think it would
4 be too great over the short term. Over the long term
5 it might be. It certainly is not a short-term
6 movement. I do not think these things would spring
7 up overnight and be successful because our people have
8 a long-standing habit of putting their money in the
9 bank, and I think this would be very difficult to over-
10 come.

11 COMMISSIONER LEMAN: These building and loan
12 societies would take deposits, would they?

13 MR. McCANCE: No. Our association has
14 had visits from representatives of these institutions.
15 Mr. Smith might be able to give you a little more
16 detail than I, since he contacted them directly and
17 they outlined to him some of the reasons why they
18 could not function in Canada at the present time
19 under existing legislation.

20 MR. SMITH: Well, Mr. Chairman, that is
21 quite a subject on which to comment. I am not at
22 all sure I have sufficient information on which to
23 advance an explanation. It would seem that the
24 patterns of mortgage lending evolved quite differently
25 on the North American continent from the manner in
26 which they evolved in Great Britain, and in turn those
27 devices established in Canada were different from
28 those in the United States.

29 I have a cousin who is manager of one of
30 these groups in Cleveland, and I would say the big

COMMISSIONER LEMMON: Now much of a shift

would you visualize?

MR. MCMAHON: I would not think it would

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which they evolved in Great Britain, and that these

devices established in Canada were different from

those in the United States.

I have a cousin who is manager of one of

these groups in Cleveland, and I would say the big



1 difference between the Canadian arrangement and the
2 American one, perhaps lies in a different state of
3 mind. In the United States there seems to be, by
4 and large, more of an eagerness, an anxiety to formulate
5 business conditions that will result in the creation
6 of a favourable climate for mortgage investment by
7 these institutions. They seem to go out of their
8 way in their efforts to insure that the federal
9 financing devices are in line with what they conceive
10 to be their best interests and those of the people
11 whose savings they accept. The result is that of 1,200,000
12 or 1,300,000 starts annually in the States, about one
13 million are financed by these institutions.

14 It would seem logical that if we cannot
15 have access to the savings of the banks in this field
16 of investment, consideration should be given to
17 establishing an alternative method. That method might
18 not take any of these particular forms. It might
19 be something distinctively Canadian, but we are not
20 competent at this stage to define the actual framework
21 of such an institution.

22 COMMISSIONER LEMAN: This morning we heard
23 from loan companies who explained to us the difficulties
24 they encounter in gathering funds for relending. What
25 could you do for these institutions that would make
26 it easier for them to do this?

27 MR. SMITH: Is not the decision up to them
28 to solve this particular problem rather than requiring
29 the House Builders Association to do so?
30



1 COMMISSIONER LEMAN: I did not mean to
2 suggest that you should solve the problem, but in
3 your brief you say there should be legislation that
4 would permit the establishment of this kind of
5 institution. I am just wondering what kind of
6 institution, in your view, is necessary.

7 MR. SMITH: The one that would provide the
8 additional mortgage money in keeping with Canada's
9 housing needs.

10 COMMISSIONER LEMAN: That is begging the
11 question. What do you visualize would be the extent
12 of the shift of funds out of the banking system
13 that should move to these other institutions to service
14 your ideal mortgage market, and which sectors should
15 suffer from it?

16 MR. SMITH: I think Mr. McCance earlier
17 stated that the amount of shift should, in effect,
18 constitute the volume of business now being done
19 directly by the government in this field except for
20 a small residual section in those areas in which the
21 conventional institutions are not interested.

22 COMMISSIONER LEMAN: That is what puzzled me,
23 because you claimed that the mortgage market on existing
24 houses is not sufficiently active, does not make funds
25 readily available in sufficient amounts and on good
26 enough terms. Then you say that the amount of the
27 shift should be measured by what the government has
28 had to pump into this sector. The two do not seem
29 to jibe. To reach the ideal conditions you visualize
30 it would have to be more than what the government supplies?



COMMISSIONER IRWIN: I did not mean to

suggest that you should solve the problem, but in
your brief you were should be legislation that
would permit the establishment of this kind of
institution. I am just wondering what kind of
institution, in your view, is necessary.

MR. SMITH: The one that would provide the

additional mortgage money to people, with Canada's
housing needs.

COMMISSIONER IRWIN: That is paying the

question. What do you think it would be in a
of the shift of funds out of the banking system
that should move to those other institutions to service
your ideal mortgage market, and which sectors should
suffer from this

MR. SMITH: I think the Finance section

stated that the amount of assets should, in effect,
coordinate the volume of business now being done
directly by the government in this field except for
a small residual section in those cases in which the
conventional institutions are not interested.

COMMISSIONER IRWIN: What is that business as

because you claimed that the mortgage market or existing
market is not sufficiently active, does not make funds
readily available in sufficient amount and in good
enough terms. Then you say that the amount of the
shift should be measured by what the government has
led to pump into a sector. The two do not seem

to jibe. To reach the ideal would, as you visualize
it would have to be more than what the government is presently



1 MR. McCANCE: That is correct. We made
2 the statement that up to now the amount that has
3 been short has been the amount the government has
4 had to put in, but if it is contemplated to enter the
5 field of financing existing houses, undoubtedly this
6 would not be enough; there would be a larger amount
7 required.

8 THE CHAIRMAN: We have heard quite a bit
9 from the other groups before us about the cost of
10 financing houses, interest rates, and the rather
11 narrow spread that the mortgage companies make out
12 of it. We haven't heard anything about the sort of
13 spread the builders make out of it.-- whether the
14 builders have a way of making a much bigger spread
15 than the people lending the money. Perhaps a little
16 shift in emphasis may solve the problem.

17 MR. McCANCE: I think the record over the
18 last couple of years has indicated possibly the
19 spread the builders were making was not a prudent one.
20 They were not making enough to tide them through the
21 difficult days. It is always true that in the more
22 affluent periods you have to accumulate enough to
23 tide you over these starvation periods; the number
24 of bankruptcies which has occurred has been an
25 indication that this has possibly not taken place.
26 The market, I can assure you from my personal experience
27 in travelling across the country, is an extremely
28 tight one at the present time.

29 THE CHAIRMAN: Perhaps at the present time,
30 but there are times when it has been quite the reverse;

THE CHAIRMAN: Now to the next. We made

the statement that in the new situation we had
been short has been the amount the Government had
had to pay in, but it is considered to be the
field of financing existing houses undoubtedly this
would not be enough. There would be a larger amount
required.

THE CHAIRMAN: We have heard quite a bit

from the other group about the cost of
financing houses, interest rates, and the rather
narrow spread that the mortgage companies have
of it. We haven't heard anything about the cost of
spread the mortgage makes out of it -- whether the
mortgage have a way of making a profit, or whether
than the people lend the money. Perhaps a little
self in expenses may solve the problem.

MR. ROBERTSON: I think the record over the

last couple of years has indicated possibly the
spread the mortgage was making was not a profit at all.
They were not making enough to take them through the
difficult days. It is always true that in the more
affluent periods you have to accumulate enough to
take you over these adjustment periods. But during
of unemployment which has occurred has been an
adjustment cost that has probably not been paid.
The matter, I am sure, you find in personal experience
in financing houses the country is an extremely
tight one at the present time.

But there are times when it has been quite the reverse



1 it has been a very lucrative business.

2 MR. McCANCE: We have possibly passed that
3 time for quite a few years to come because of the fact
4 that the supply has virtually caught up with the
5 demand in most areas. In fact, it has exceeded it
6 in some, and this, in itself, has taken more of the
7 market. Competition automatically takes care of it.

8 THE CHAIRMAN: Then, why do you need so
9 much more in the way of funds for mortgages if supply
10 has caught up with it?

11 MR. McCANCE: We have a lot of people who
12 simply cannot afford houses yet; they haven't got
13 this down-payment. They cannot enter the present
14 market.

15 COMMISSIONER LEMAN: I think earlier didn't
16 we establish that by saving for a year or a year and
17 a half they would have the down-payment?

18 MR. McCANCE: This is quite possible, yes.

19 COMMISSIONER LEMAN: Saving exactly the
20 amount they would have to use to support the loan once
21 they got it.

22 MR. McCANCE: This might be theoretically
23 possible. Of course, in the meantime, while they
24 are doing this, they are having to pay rent. So,
25 we cannot apply the whole amount of their monthly
26 payment towards savings. They have to live. Sometimes
27 rent is more expensive than owning a home. So, it
28 is a losing proposition. As soon as they get into a
29 house they start to save money.

30 COMMISSIONER LEMAN: What I am groping for



it has been a very intensive business.

MR. MCGOUGH: We have recently passed that

time for quite a few years because of the fact

that the supply has virtually caught up with the

demand in most areas. In fact, it has exceeded it

in some, and this, in fact, has taken some of the

market. Competition automatically has taken some of it.

THE CHAIRMAN: Then, say, as you said so

much more in the way of loans, are they going to supply

has caught up with it?

MR. MCGOUGH: We have a lot of people who

simply cannot afford home-ways, they have to

this over-payment. They cannot make the payment.

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we establish that by saving for a year or a year and

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they got it.

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possible. Of course, in the way that, while they

are doing this, they are having to pay rent, too.

We cannot apply the whole amount of their savings

payment towards savings. They have to live. Sometimes

rent is more expensive than owning a home, too, it

is a joint proposition. As soon as they get into a

house they start to save money.

COMMISSIONER LAMAR: When I am looking for



1 is this: I am just wondering to what extent the
2 difficulty of raising the down-payment is really in
3 the long run, if you don't take just one year in
4 isolation -- does it really affect the amount of
5 new housing provided in the country?

6 MR. McCANCE: Absolutely. The down-payment
7 is the crucial thing to the borrower. The interest
8 rate, within reason, is secondary. To the lender
9 it is very important. Half of one per cent to the
10 borrower is of very little importance compared with
11 being able to buy a house with a small down-payment
12 and get suitable accommodation.

13 COMMISSIONER LEMAN: Let me ask my question
14 differently: how long do you think you will postpone
15 the building of a new house, in terms of months or
16 years, by letting the down-payment get saved? Will
17 you postpone that purchase for one year or two years,
18 or how long? That house will get built and be bought
19 sometime, won't it?

20 MR. McCANCE: I suppose if the incentive
21 is sufficient. These other attractions competing
22 for the consumer's dollar today are so urgent, I am
23 afraid, that many of these take precedence over owning
24 a home. Once home ownership is achieved, however,
25 there is a certain element of compulsory saving
26 involved, and from that point on the home owner begins
27 to accumulate. I don't think I could state how this
28 would work out, because I think it would vary in
29 various circumstances.

30 COMMISSIONER GIBSON: Mr. McCance, you say

is that I am not working to the extent that
satisfaction of raising the home-ownership is really in
the long run, if you don't take that one year in
inflation -- does it really affect the amount of
new housing provided in the country?

is the crucial thing for the economy. The interest
rate, within reason, is absolutely in the hands
it is very important. Half of our growth in the
country is of very little importance compared with
being able to buy a house with a small down-payment
and get another accommodation.

COMMISSIONER LEWIS: But we have my question
attentive: how long do you think you will postpone
the building of a new house, in terms of months or
years, by forcing the down-payment to be 20%? Will
you postpone that purchase for one year or two years,
or how long? That house will be built and be for sale
some time, won't it?

MR. McCAFFRY: I suppose in the incentive
is built. These other are not being completed
for the consumer's interest today are so much, I am
afraid, that many of these have been postponed over owning
a home. Once home ownership is achieved, however,
there is a certain element of compulsory saving
involved, and from that point on the home owner begins
to accumulate. I don't think I could state how this
would work out, because I think it would vary in



1 that a certain amount of the savings deposits at
2 the banks should be diverted into mortgages, and,
3 of course, in certain years a sizeable amount of their
4 funds have been going into mortgages. In the years
5 in which they have not been, since 1954 when the Act
6 was changed, I think it is fair to say there has been
7 a condition of tight money, or something approaching
8 that, which means that their funds are fully used,
9 and their loans are high, and so on. How do you
10 divert funds in these circumstances? What should
11 be cut back? Should more credit be created? How
12 do you cope with this problem? You are making a
13 proposal: how would you do it?

14 MR. McCANCE: Certainly, this has to be
15 attractive from the banks' standpoint or they would
16 not do it. That would seem fundamental. It was
17 apparently sufficiently attractive during the years
18 when the loan had interest in it.

19 COMMISSIONER GIBSON: They had money in those
20 years.

21 MR. McCANCE: Over and above their demands?

22 COMMISSIONER GIBSON: Over and above their
23 immediate requirements to service their regular
24 customers, yes.

25 MR. McCANCE: Well, I assume we could only
26 say that many of customers of the banks, possibly,
27 would be the ones who would be making the demand on
28 the bank for the mortgage money, and the bank, therefore,
29 would have to decide whether it was advisable to put
30 the money out in the form of personal loans to its



that a certain amount of the savings deposits at the banks should be diverted into mortgages, and, of course, in certain years a sizable amount of their funds have been going into mortgages. In the years in which they have not been, since 1914 when the Act was changed, I think it is fair to say there has been a condition of tight money, or something approaching that, which means that their funds are truly hard, and their loans are tight, and so on. How do you divert funds in these circumstances? What should be cut back? Should more credit be created? How do you cope with this problem? You are making a proposal: how would you do it?

MR. McCAW: Certainly; this can be done attractive from the banks, standing or they would not do it. That would seem fundamental. It was apparently sufficiently attractive during the years when the loan had interest in it.

COMMISSIONER GIBSON: They had money in those years.

MR. McCAW: Over and above their demand? COMMISSIONER GIBSON: Over and above their immediate requirements to service their deposits.

MR. McCAW: Well, I assume we could only say that many of customers at the banks, possibly, would be the ones who would be making the demand on the bank for the mortgage money, and the bank, therefore, would have to decide whether it was advisable to put the money out in the form of personal loans to the



1 customers or in the form of mortgages to its customers.
2 This would be a decision for the bank.

3 COMMISSIONER GIBSON: They do make such
4 decisions and you don't like it -- at least, you don't
5 like it, yourself: what would you do about this?

6 MR. McCANCE: The reason, I gather, for them
7 discontinuing is that they have built up this large
8 portfolio, and also they are prevented from doing so
9 at the moment.

10 COMMISSIONER GIBSON: Well, money has been
11 pretty tight for a while.

12 MR. McCANCE: True.

13 COMMISSIONER GIBSON: There has not been
14 enough to go around.

15 MR. McCANCE: But they have continued to
16 make personal loans. Presumably, they would have
17 made mortgage loans if they could have done so: some
18 personal loans, some mortgage loans. As it is now,
19 they are making virtually no mortgage loans.

20 COMMISSIONER GIBSON: I am not questioning
21 your facts. I am asking, what would you do about it?

22 MR. McCANCE: I don't think we can do anything
23 about it. The bank has the money and they are going
24 to decide how to put it out. All we can say is that
25 there should be some means made available for them
26 to do so.

27 COMMISSIONER MACKINTOSH: Isn't the
28 legitimate limit of your argument, really, that the
29 seeker of mortgage funds ought to be put in a position
30 where he competes on an even basis with the other



customers on in the form of mortgages to the customers.

This would be a decision for the bank.

COMMISSIONER GIBSON: They do make such

decisions and you don't know it -- at least, you don't

like it, yourself. What would you do about this?

MR. McMANIS: Really, for them

discovering is that they have built up this large

portfolio, and also they are prevented from doing so

at the moment.

COMMISSIONER GIBSON: Well, money has been

pretty tight for a while.

MR. McMANIS: That

money is tight for a while. There has not been

enough to be loaned

MR. McMANIS: But they have succeeded in

making personal loans. Presumably, they would have

made mortgage loans if they could have done so. Some

personal loans, some mortgage loans. As it is now,

they are making virtually no mortgage loans.

COMMISSIONER GIBSON: I am not questioning

your facts. I am asking what you are about the

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about it. The bank has the money and they are going

to decide how to put it out. All we can say is that

there should be some means made available for them

to do so.

COMMISSIONER GIBSON: That is

legitimate part of your argument, really. What the

sector of mortgage funds ought to be put in a position

where he competes on an even basis with the other



1 people asking for bank credit?

2 MR. McCANCE: I think so.

3 COMMISSIONER MACKINTOSH: And beyond that
4 there may be some presumption you are going to have a
5 supply of housing where you anticipate the whole rate
6 of saving in the country has to be raised to provide
7 the funds; but in so far as your words might seem to
8 imply there was a great supply of idle savings accounts
9 in the banks that somehow could not get out and could
10 not be attached for mortgage purposes, this won't
11 stand up?

12 MR. McCANCE: No. I think we recognize
13 that, Dr. Mackintosh, and if we implied this, I think
14 it is incorrect. We realize the funds are fully used.
15 The point we are making is that at the moment they
16 are prevented from entering the mortgage field, and
17 we believe that some would. We don't know how much,
18 but some certainly would if the banks were permitted
19 to make these loans. We are a little doubtful about
20 how much, but I believe the demands of their customers
21 might influence their decision as to which way they
22 placed their money.

23 COMMISSIONER BROWN: Perhaps I might ask a
24 question in the same tenor: you suggest the Bank
25 Act be amended to permit the chartered banks to make
26 N.H.A. loans even above 6 per cent: what would your
27 reaction be to the suggestion that the 6 per cent
28 ceiling be abolished for all loans and let the banks
29 have complete freedom to decide?

30 MR. McCANCE: From our standpoint, I think



people asking the bank officials

Mr. Westcott: I think

there may be some question as to the ability to have a supply of housing loans and the whole idea of saving in the country has to be helped to provide the funds; but in so far as your wife's assets are simply there was a great supply of cash in the bank in the bank last summer and now get out and don't not be attached for mortgage purposes, I don't

stand up

Mr. Westcott: No, I don't see how

that, Mr. Westcott, and if we are not sure, I think it is incorrect. We would like to see the bank and they would the point we are making is that at the moment they are protected from the bank the mortgage funds, and we believe that some would. We don't know how much, but some certainly would if the bank were protected to make these loans. We are a little doubtful as to how much, but I believe the demands of their customers might influence their decision as to which way they

Mr. Westcott: Perhaps I might ask a

question in the same line, you might say the bank not be expected to provide the mortgage funds to make R.H.A. loans even if it is not clear what would their reaction be to the suggestion that the bank would be selling the bonds for the bank and for the bank has complete freedom of action

Mr. Westcott: From an standpoint, I think



1 this would be quite all right. How the banks feel
2 about it, I don't know.

3 COMMISSIONER BROWN: We will have an opportunity
4 to ask the banks about this.

5 MR. McCANCE: Yes. We tried to confine
6 ourselves to the parts relating to our industry,
7 because we didn't want to encroach on any other, and
8 we have dealt with the housing industry and suggested
9 they be allowed to do so under N.H.A.

10 COMMISSIONER BROWN: On the other hand,
11 presumably your members are also customers of the
12 banks from the point of view of borrowing funds, so
13 presumably you do have a direct interest in this
14 question of ceiling on bank lending rates.

15 MR. McCANCE: That is right.

16 COMMISSIONER BROWN: Well, what do you think
17 about this?

18 MR. SAWYER: I think, Mr. Brown, that the
19 banks are in the same position as any person out
20 competing for money. They should be allowed to set
21 a savings rate or a lending rate which would enable
22 them to fulfill the function intended. I was listening
23 to the arguments this morning when the discussion was
24 revolving around the maximum interest rate charged
25 for loans, and I was hoping one of the Commissioners
26 would have asked the question, what would the same
27 question have been about 20 or 30 years ago, because
28 I would have hoped to hear the answer from people
29 experienced in the mortgage business. I think they
30 used the figure somewhere between 7 and 8 per cent,

this would be quite all right. Now the banks feel

about it, I don't know.

COMMISSIONER FRANK: We will have an opportunity

to ask the banks what to do.

MR. McLELLAN: Yes. We tried to convince

ourselves to the banks relating to our industry.

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them to fulfill the function intended. I was listening

to the arguments this morning when the discussion was

concerning the banks' position and the

for loans, and I was hoping one of the Commissioners

would have asked the question, what would the rate

question have been about 10 or 15 years ago, because

I would have hoped to hear the answer from people

experienced in the mortgage business. I think they

used the figure somewhere between 7 and 8 per cent.



1 conventional, which they could receive without getting
2 any psychological barrier. However, that same figure,
3 say, some 30 years from now -- does the psychological
4 barrier move with changing conditions? I don't
5 presume to know the answer, but when we set a fixed
6 bank rate of 6 per cent, which has been in effect
7 for a number of years, maybe the psychological barrier
8 has been removed and it should be higher. If it
9 was raised higher, they could pay more savings interest
10 which would command more savings into the banks, and
11 I assume that as the level of income of Canadians
12 is going up, then, the savings level should be raised.

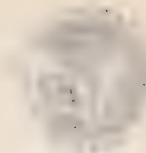
13 COMMISSIONER BROWN: But you again used the
14 expression "the limit raised higher": I am asking
15 about the removing of limits.

16 MR. SAWYER: Well, I didn't mean that.
17 If we are asking in our particular industry for removal
18 of the N.H.A. limit, and how to find this free flow,
19 why should not other institutions be allowed the
20 same way?

21 COMMISSIONER LEMAN: We have talked about
22 the difficulties that borrowers have because of the
23 insufficiency of the supply of funds in this sector.
24 How about the builders themselves? We haven't got
25 any figures in your brief as to how they finance.
26 They do use the banks a great deal to finance their
27 operation between the start of a construction project
28 and the completion of it, don't they?

29 MR. McCANCE: Yes.

30 COMMISSIONER LEMAN: What sort of adequacy



any psychological barrier. It was, that same figure.
any, some 20 years from now -- does the psychological
barrier live with changing conditions? I don't
pressure to know the answer, but when we set a fixed
back rate of 6 per cent, which has been in effect
for a number of years, maybe the psychological barrier
has been removed and it would be a good idea. If it
was raised higher, they would pay more savings interest
which would command more savings from the banks, and
I assume that as the level of interest of deposits
is going up, then the savings level should be raised.
CONGRESSIONAL RECORD: But you again need the
expression "the limit raised slightly": I am asking
about the removal of limits.
MR. SAWYER: Well, I didn't mean that.
If we are asking for our government's authority for removal
of the M.R.A. limit, and not to limit this flow
why should not other limitations be allowed the
the distinction that is known have because of the
intention of the supply of funds in this sector.
How about the public's interest? We haven't got
any figures in your case, or to how they changed.
They do see the banks a great deal as financial firms
operation between the sort of a concentration project
and the completion of it, don't they?



1 of funds did the industry encounter in that regard?

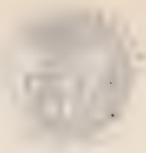
2 MR. McCANCE: We find no difficulty in that
3 respect, Mr. Leman. The brief was circulated to all
4 our 48 associations across the country and there seemed
5 no indication this was a particular problem of the
6 housing segment of the industry.

7 COMMISSIONER LEMAN: You have explained
8 at certain times when there was great activity under
9 N.H.A. that some marginal people were attracted into
10 the business, but they had to go out again.

11 MR. McCANCE: That is right.

12 COMMISSIONER LEMAN: Suppose we eliminated
13 those, whom we will call the "in-and-outers": is there
14 a typical form of financing a housing construction
15 operation from the point of view of a percentage
16 equity in it and the percentage of borrowed funds,
17 etc.; or is there nothing typical?

18 MR. McCANCE: I rather imagine there
19 isn't anything typical, but an example would be that
20 I believe the builders in most cases -- most prudent
21 builders -- limit their activity to the amount they,
22 themselves, can finance over and above the mortgage.
23 This has been the downfall of many who have exceeded
24 this prudent limit: they have built ten houses when
25 they could finance five, and this results in their
26 eventual going out of business. These are the people
27 who, we regret to say, probably should not have been
28 in there in the first place. It is like any other
29 business: if you run a business on a sound basis
30 there should be no difficulty in this respect, because



...tends did the industry encounter in that regard?

MR. WATKINS: We find no difficulty in that.

...remains, Mr. Watson. The point was directed to all.

...it is as a whole, no industry and there seemed

no indication that there was a serious problem of the

...industry, of the industry.

...industry, of the industry.

...at certain times when there was great industry when

...W.H.A. had some electrical equipment, were attached to

the business, but they had to go out again.

MR. WATKINS: That is right.

...CONSTITUTIONAL LAW. ...we also covered

...none, where will the "and others" be there

...a typical ... of ...

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...equally in it and he has ... of ...

MR. WATKINS: I ... there

...into ... and an ... would be to

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business -- first ... to the ...

themselves. ... and ...

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this business first. They ... and ...

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business. It ...

there should be no ...



1 your production is limited to your financing.

2 COMMISSIONER LEMAN: If we talk about a
3 stock of unsold houses, who do you feel should carry
4 this stock?

5 MR. McCANCE: The builder who built them.

6 COMMISSIONER LEMAN: The builders themselves?

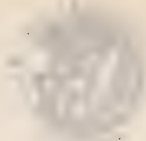
7 MR. McCANCE: Yes. That does not say they
8 haven't pre-arranged some financing to do this, but
9 this is all part of their business and they should
10 anticipate this can happen and should gear themselves
11 accordingly, and I think most of them do.

12 COMMISSIONER LEMAN: Well then, the reason
13 I was asking you those preliminary questions was to
14 try and get some idea from you of what the effect of
15 changes in interest rates has been on builders? When
16 interest rates do go up, do they tend to slow down
17 their operations and stretch out the construction
18 programme they have started? How do they react
19 to these movements?

20 MR. McCANCE: Which interest rates are
21 you referring to?

22 COMMISSIONER LEMAN: Interest rates in
23 general, either for the funds they have to get, say,
24 from banks to finance the operation, or a change in
25 the mortgage rates?

26 MR. McCANCE: I do not believe the bank
27 interest rate would influence the rate of production
28 at all. The cost of money is of very little
29 significance. It is the demands of the market that
30 are the significant things: how many units can you



your production is limited by your financial
condition. It is not a
stock of money, which is not really scarce.

Mr. W. H. H. The problem was first seen.

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Mr. W. H. H. The problem was first seen.



1 produce, and how many units can you sell. This is
2 the type of gamble -- calculated gamble, if you will --
3 which has to be made because of the fact it takes
4 a considerable length of time to produce a housing
5 unit and the market can completely change from the
6 time you start until the time you finish. This is
7 a calculated risk which people in the business have
8 come to expect and try to judge.

9 The effect on the industry of a change
10 of N.H.A. interest rate, though, can be quite
11 significant, because if a builder has built his year's
12 production of a certain house and it is just coming
13 into the market, and the N.H.A. rate drops from $6\frac{3}{4}$
14 per cent to some lower figure, he naturally is at
15 a competitive disadvantage to some extent in selling
16 with someone who just builds at the lower rate.
17 There is a certain influence there. It is not a
18 primary one, as I said before, but it is a disadvantage.



1 COMMISSIONER LEMAN: Would you say that the
2 range within which the N.H.A. rates have moved has not
3 had a significant effect on the demand factor you
4 have mentioned?

5 MR. McCANCE: No, I do not think the rate
6 has influenced the demand appreciably at all.

7 COMMISSIONER LEMAN: So there again we
8 would be only influenced once we get to hit that
9 psychological ceiling that was referred to.

10 MR. McCANCE: Yes, and the N.H.A. rate is
11 below the psychological ceiling by a few points.

12 COMMISSIONER LEMAN: Some builders under
13 certain circumstances will not build until they have
14 found a customer, whereas at other times they will
15 build on spec. Is this not so?

16 MR. McCANCE: The great bulk of housing
17 built in Canada by merchant builders is built on
18 speculation. The great majority of housing built
19 in this country is originated by builders and not by
20 home-owners. Up to 75 per cent of the housing units
21 in this country are originated by merchant builders,
22 people of our industry, and only the remainder are
23 initiated by home-owners.

24 COMMISSIONER LEMAN: The risk of having
25 to carry an inventory of unsold houses for "X" months
26 or even for a year after completion is greatly
27 influenced by the interest rate on the mortgage
28 that has been taken out, be it an N.H.A. mortgage
29 or any other mortgage?

30 MR. McCANCE: No; the change of rates within



1 the limits in which they have been moving in the last
2 few years is a very insignificant part of the monthly
3 payment. The monthly payments would not vary more
4 than a couple of dollars by a change of one-half of
5 one per cent. It is inconsequential.

6 COMMISSIONER LEMAN: It does not have
7 much influence?

8 MR. McCANCE: There is very little influence.

9 THE CHAIRMAN: Thank you very much,
10 gentlemen, for the discussion that you have provided
11 this afternoon.

12 MR. McCANCE: Thank you, Mr. Chairman.

13 THE CHAIRMAN: We appreciate your brief
14 and we appreciate your presence here today.



of limits in which they have been living in the last
few years is a very important part of the monthly

and a sample of letters by a charge of one-half of

It is important to

CONFIDENTIAL: It does not have

which indicated

Mr. Johnson: There is very little influence.

THE CHAIRMAN: Thank you very much.

Government, for the occasion that you have provided

one of them

CONFIDENTIAL: Thank you, Mr. Johnson.

THE CHAIRMAN: We appreciate your brief

and we welcome you to our group today.



SUBMISSION OF

CANADIAN CONSTRUCTION ASSOCIATION

APPEARANCES

| | |
|------------------|--|
| T. M. Saunders | - Honorary Treasurer. |
| T. G. Fuller | - Honorary Secretary. |
| J. E. Laflamme | - Quebec Vice-President. |
| H. R. Montgomery | - President. |
| S. D. C. Chutter | - General Manager. |
| Mark Stein | - Chairman of Legislation & Taxation Committee. |
| Keith Sandford | - Taxation and Business Research. C.C.A. |

THE CHAIRMAN: Mr. Montgomery, I do not know whether you wish to make a preliminary statement or have us proceed with questioning.

MR. MONTGOMERY: First of all, sir, I should like to express our pleasure in having been called before this Commission and I hope that out of our brief may come something useful to you.

COMMISSIONER MACKINTOSH: Mr. Montgomery, we have had a number of people just preceding you who were particularly interested in the housing field. I take it from your brief that while you are not disinterested in that field your major interests are really outside the housing field. You mention in one of the early paragraphs -- I forget where --



1 a substantial volume of projects other than housing
2 that are initiated by the builders rather than simply
3 contracts. Would you tell me what sort of things
4 these are so that I will have a better picture of
5 this?

6 MR. MONTGOMERY: They would include such
7 things as contractor-built industrial plants to be
8 leased or sold to an owner by lease-back. They would
9 also include office buildings and high-rise apart-
10 ments built by, let us call it, an owner-builder to
11 a very great extent. This tendency seems to be
12 increasing in some of our cities such as Toronto
13 and Montreal.

14 COMMISSIONER MACKINTOSH: How would this
15 sort of activity be affected by changes in interest
16 rates and in the availability of funds?

17 MR. MONTGOMERY: Dr. Mackintosh, if you
18 do not mind I should like to pass the answering to
19 some of these questions to my confreres. In this
20 case I should like to ask Mr. Fuller if he would
21 care to comment.

22 MR. FULLER: The economics with respect
23 to an interest rate on apartment lease-back are such
24 that if the interest rate went too high it would be
25 damaging in putting deals across and selling them
26 as an economic venture.

27 COMMISSIONER MACKINTOSH: You would have
28 to charge the customer more than he would be willing
29 to pay?

30 MR. FULLER: Yes. In the last ten years

a substantial volume of property other than housing
that are initiated by the builders rather than simply
contracts. Would you tell me what sort of things
these are so that I will have a better picture of

MR. MONTGOMERY: They would include such

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a very great extent. This tendency seems to be
increasing in some of our cities such as Chicago
and Montreal.

CONSUMERS: How would this

sort of activity be affected by changes in interest
rates and in the availability of funds?

MR. MONTGOMERY: As far as I know, if you

do not mind I should like to pose the question to
some of these questions to my colleagues. In fact
case I should like to ask the holder of the world

came to comment.

MR. BULLITT: The committee with respect

to an interest rate on a lease-back are then
that if the interest rate went too high it would be
negating in getting deals across and selling them
as an economic venture.

CONSUMERS: You would have

to charge the customer more than he would be willing

to pay.

MR. BULLITT: Yes, for the last two years



1 it has risen from approximately $7\frac{1}{4}$ per cent of the
2 overall costs to somewhere in the neighbourhood of
3 $9\frac{3}{4}$ to 10 per cent today. Furthermore, it has
4 to be gotten rid of in the fifth or sixth year or
5 the owner finds himself putting his hand in his
6 pocket to pay the income tax on the deal.

7 COMMISSIONER MACKINTOSH: I do not follow
8 that, Mr. Fuller.

9 MR. FULLER: He would be taxed on what
10 goes towards the payment of the mortgage; the owner
11 would then be in a position where he would have to
12 put good money into the venture after the fifth or
13 sixth year in order to pay his income tax on the
14 proportion of the mortgage money which was principal.

15 COMMISSIONER MacKEEN: What goes into the
16 lease-back?

17 MR. FULLER: The entire cost of operation,
18 other than the cost of the structure, plus the
19 architect's fees and the administration costs of the
20 building -- the entire running of the structure goes
21 into the lease-back as a general rule.

22 COMMISSIONER MacKEEN: The taxes?

23 MR. FULLER: With the exception of the
24 outside maintenance of the building everything is
25 usually left in the hands of the owner-builder.

26 COMMISSIONER MacKEEN: What about the
27 taxes?

28 MR. FULLER: These are usually paid by the
29 person renting.

30 COMMISSIONER MACKINTOSH: You have made as



it has risen from approximately 75 per cent of the
 overall costs to somewhere in the neighbourhood of
 90 per cent now. Furthermore, it has
 to be given aid of the kind of which you are
 the owner finds himself paying out more in his
 pocket to pay the interest than on the loan.

CONTINUOUS MORTGAGE: I do not follow

Mr. BAKER. He would be asked by what
 from towards the payment of the mortgage, the owner
 would then be in a position where he would have to
 get back money from the bank after the time on
 when you in order to pay the interest due on the
 redemption of the mortgage money which was previously
 CONTINUOUS MORTGAGE: What goes into the

Mr. BAKER. The entire cost of redemption,
 other than the cost of the redemption, plus the
 interest due on the redemption of the cost of the
 redemption of the entire amount of the mortgage when
 into the bank as a general rule.

Mr. BAKER. When the redemption of the
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 usually left in the hands of the owner-bank.

CONTINUOUS MORTGAGE: What about the

Mr. BAKER. There are no other words by the

CONTINUOUS MORTGAGE: I do not follow



1 one of your major sets of recommendations the provision
2 for greater investment incentives. The majority of
3 them, I take it, are incentives to what you might call
4 customers of the construction industry, but some of
5 them are incentives to the construction industry itself.
6 You lay particular emphasis, if I recall rightly,
7 on greater incentives to the manufacturer whose new
8 construction, say, has been less than you would like
9 it to be in the last few years. Isn't the basic
10 difficulty the fact that the capacity is already
11 adequate if not excessive? How can you get an incentive
12 to work?

13 MR. MONTGOMERY: That may well be true in
14 certain areas but not in all areas. We feel that
15 in some areas there is not too much capacity and
16 they could stand more capacity; moreover, we feel
17 that incentives are sometimes needed to induce
18 manufacturers to modernize their plants, some of
19 which are now becoming obsolete in comparison with,
20 let us say, foreign manufacturers who are selling in
21 this market. We feel in that case an incentive is
22 probably required to induce them to modernize these
23 plants. As far as incentives for our own industry
24 are concerned you probably refer to the fact we urge
25 a greater capital cost allowance on construction
26 equipment purchases. There are several reasons for
27 that. One is that we think that the rate was not
28 adjusted in the same manner as it was for other
29 industries at the time they changed from a straight
30

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them are incentives to the construction industry itself.

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on greater incentives to the manufacturer whose raw

construction, say, has been less than you would like

it to be in the last few years. That's the basic

difficulty the fact that the capacity is already

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certain areas but not in all areas. We feel that

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manufacturers to modernize their plants, some of

which are now becoming obsolete in comparison with

let us say, foreign manufacturing and are selling in

this market. We feel in that case an incentive is

probably needed to induce them to modernize those

plants. As far as incentives for our own industry

are concerned you probably refer to the fact we have

a greater capital cost structure in construction

equipment purchases. There are several reasons for

that. One is that we think that the rate was not

adjusted in the same manner as it was for other

industries at the time they changed from a straight



1 line to a diminishing balance basis.

2 Where most other industries had their
3 straight-line rate doubled, in the case of the
4 construction industry it was increased by 50 per
5 cent. Moreover, under the old system of straight-
6 line depreciation, allowance was made for double-
7 shift operations which took into account the fact
8 you were using up machinery faster.

9 There is another factor today, of course,
10 and that is that due to developments in the art of
11 making new and better machines you get a factor of
12 obsolescence in construction machinery, particularly
13 in the heavy road-building category. It is our feeling
14 that the rates should be adjusted upwards to about
15 50 per cent from the present 30 per cent.

16 COMMISSIONER MACKINTOSH: That is 50 per
17 cent a year?

18 MR. MONTGOMERY: On a diminishing balance.

19 COMMISSIONER MACKINTOSH: You do not feel
20 that the tax cuts ought to be on the consumer side
21 to provide demand for the manufacturer's products, which
22 might stimulate enough sales so that he would require
23 more capacity?

24 MR. MONTGOMERY: We do not disagree with
25 the idea, sir. In fact, in some of our recent
26 presentations we have advocated a downward adjustment
27 for personal income tax. We have, however, laid
28 more emphasis recently on the incentives for manu-
29 facturers.
30

line to a diminishing balance basis.

Where most other industries had fairly

straight-line rate doubled, in the case of the

construction industry it was increased by 50 per

cent. Moreover, under the old system of straight-

line depreciation, allowance was made for double-

shift operations which took into account the fact

you were using up machinery faster.

There is another factor today, of course,

and that is that due to developments in the art of

making new and better machines you get a factor of

obsolescence in construction machinery, particularly

in the heavy road building category. It is our feeling

that the rates should be adjusted upwards to about

50 per cent from the present 30 per cent.

COMMISSIONER MACKINICH: That is 50 per

cent a year.

MR. HENNING: In a diminishing balance

COMMISSIONER MACKINICH: You do not feel

that the tax rate ought to be at the consumer side

to provide demand for the manufacturer's products, which

might stimulate enough sales so that he would require

MR. HENNING: We do not disagree with

the idea, sir. In fact, in some of our recent

presentations we have advocated a uniform adjustment

for personal income tax. We have, however, laid

more emphasis recently on the incentive for man-



1 COMMISSIONER MACKINTOSH: And this is based
2 as you say, on your two assumptions: (a) there are
3 some manufacturers who need more capacity, even
4 though all of them do not, and (b) that a large
5 proportion of them could with advantage undertake
6 investment for modernization?

7 MR. MONTGOMERY: Yes.

8 COMMISSIONER MACKINTOSH: And for more
9 rapid taking up of obsolescence.

10 MR. MONTGOMERY: Yes.

11 COMMISSIONER MACKINTOSH: You have a
12 recommendation here of which I do not understand the
13 background sufficiently. We are not a taxation
14 commission, unfortunately, so our study is not extended
15 to that field to any degree. You speak of extending
16 the incentive principle to privately-financed
17 wintertime construction projects. I take it there
18 is some incentive principle in government-financed
19 projects, is that right?

20 MR. MONTGOMERY: There is to this extent,
21 sir, that the federal government, and in certain
22 instances provincial government as well, assist
23 financially municipalities to carry out works in
24 wintertime rather than in summertime. Funds are
25 made available providing the work is carried out
26 within certain periods of the year. What we are
27 thinking is to provide some incentive to private
28 business to utilize the wintertime for construction to
29 a larger extent than is done at the present time. One
30 suggested way in which this might be done would be to

as you say, on your two assumptions; (a) there are

some manufacturers who need more capacity, even
though all of them do not, and (b) that a large
proportion of them could with advantage undertake
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within certain periods of the year. What we are

thinking is to provide some incentive to private

business to utilize the winter-time for construction to

a larger extent than is done at the present time. One

suggested way in which this might be done would be to



1 allow a higher rate of capital cost allowance or
2 depreciation on those works carried out in the winter-
3 time in place of the summertime. The idea of this,
4 of course, is to level out employment throughout the
5 year.

6 COMMISSIONER MACKINTOSH: Yes.

7 MR. MONTGOMERY: The federal wintertime
8 construction programme has been eminently successful
9 up until now. We feel it would be even more success-
10 ful were it extended to the private field.

11 COMMISSIONER MACKINTOSH: I missed the
12 exact nature of the incentive which you would offer.

13 MR. MONTGOMERY: One we thought of, sir,
14 was to allow a ~~higher~~ rate of depreciation for
15 works carried out in the winter time as opposed to
16 the summer. Could I call on our general manager,
17 Mr. Chutter, to enlarge on this?

18 COMMISSIONER MACKINTOSH: Certainly.

19 MR. CHUTTER: We believe an example which
20 would be comparable, Dr. Mackintosh, is that under
21 the municipal winter works incentive programme the
22 municipalities get a substantial incentive to do
23 municipal servicing during the winter months. To
24 an increasing extent a good many municipalities are
25 requiring builders to instal municipal services which
26 ultimately become part of the municipal system. The
27 scheme as applied to municipalities has had a very
28 good response, and we have suggested that if the
29 same incentive is offered to private developers who
30 have to instal these municipal services there is every



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depreciation on those works carried out in the winter-
time in place of the summer. The idea of this,
of course, is to level out employment throughout the

COMMISSIONER WATKINS: Yes.

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up until now. We feel it would be even more success-
ful were it extended to the private field.

COMMISSIONER WATKINS: I missed the
exact nature of the incentive which you would offer.
MR. MONTGOMERY: The one thing I am

was to allow a higher rate of depreciation for
works carried out in the winter than as applied to
the summer. Could I call on our general manager.

MR. STUBBS: I am glad to do this.

COMMISSIONER WATKINS: Certainly.
MR. STUBBS: We believe in winter which
would be comparable, for instance, is that under
the municipal winter works incentive program the
municipalities get a substantially increased 60 or

municipalities receiving during the winter months. To
an increasing extent a good many municipalities are
requesting help from the federal government to carry out
ultimately become part of the municipal system. The
scheme as applied to municipalities has had a very

good response, and we have suggested that in the
same measure be offered to public utilities.



1 reason to believe that they would respond to this
2 incentive with the same enthusiasm as municipalities,
3 and perhaps even more so. This is the same operation
4 but the incentive is offered only if it is done by the
5 municipality. If the developer has to do it himself
6 there is no incentive.

7 COMMISSIONER MACKINTOSH: As I understand
8 it the incentive to the municipality is the assumption
9 of a large fraction of the cost by the federal
10 government.

11 MR. CHUTTER: Yes.

12 COMMISSIONER MACKINTOSH: Is that in
13 simple terms what you mean, that a similar fraction
14 be allowed to a private developer? This is pretty
15 handsome.

16 MR. CHUTTER: It depends how you look at
17 it. The federal government has felt it is saving
18 money in offering this incentive to municipalities
19 because they have much less outlay for unemployment
20 assistance, and so on. It is just that simple, sir.
21 To express it in millions of dollars, it would not
22 amount to a relatively excessive amount.

23
24 This scheme has been
25 increasing in scope between the federal and municipal
26 governments over the last four or five winters with
27 good results.

28 In so far as the type of incentives which
29 Mr. Montgomery was mentioning are concerned, once again
30 we would stress that it is not a giveaway or subsidy



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COMMISSIONER, BUREAU OF LAND MANAGEMENT: As I understand
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governments over the last four or five years with
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Mr. Montgomery was mentioning a second one, once again

we would agree that it is not a giveaway or subsidy



1 by the federal government but in effect is a deferment
2 of revenue. It is just that the capital cost allowances
3 would be greater in the earlier years, but there would
4 be no ultimate loss of revenue.

5 COMMISSIONER MACKINTOSH: I am inclined
6 to think there is some possibility that the
7 depreciation incentive is wearing a little thin.
8 You defer tax on too many things and the payments
9 finally come due. I think you find some companies
10 are not claiming quite as much depreciation as they
11 did in their first enthusiasm, for they find that
12 ultimately this comes due. So, the further you extend
13 this principal, to some degree, the less potent it
14 becomes as far as the depreciation aspect is concerned.



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of revenue. It is just that the capital cost allowances
will be greater in the earlier years, but there would
be no ultimate loss of revenue.

COMPTROLLER MARK HANCOCK: I am inclined

to think there is some possibility that the
depreciation incentive is working a little bit.
You defer tax on too many things and the payments
timely come due. I think you find some companies
are not claiming quite as much depreciation as they
did in their first enthusiasm, for they find that
ultimately this comes due. No, the further you extend
this principle, to some degree, the less prompt it
becomes as far as the depreciation aspect is concerned.



1 MR. MONTGOMERY: But supposing they
2 made it so that the privilege would be available to
3 those private firms that wish to take advantage of
4 it.

5 COMMISSIONER MACKINTOSH: As far as an
6 incentive for privately financed winter-time projects
7 is concerned, is not what you want an incentive that
8 would make it equally advantageous to the initiator,
9 whoever he may be, to do the work in the winter-time
10 as in the summer? The incentive to municipalities,
11 I think, has a second motive in that it tends to
12 increase the volume of the work that is done, and
13 not merely switch it from summer to winter.

14 MR. MONTGOMERY: I think that that is true,
15 sir, but since about two-thirds of the total
16 construction volume carried out in Canada is private
17 work, and since there is still in this country a
18 considerable difference between the volume of private
19 work carried out in the winter-time and that carried
20 during the balance of the year, it is our feeling
21 that it should be of interest to government to do
22 what it can to induce private industry to level out
23 this hill and valley affair as much as they can.
24 This is one way in which it might be done. Works
25 are carried out in the winter, of course, without
26 special incentives. They are carried out for a great
27 variety of reasons, such as getting the finished
28 project ready for rental sooner, and so on and so forth.
29 It would not necessarily mean a very large capital
30 cost allowance incentive just to swing the weight,

made it so that the privilege would be available to those private firms that wish to take advantage of

CONSTRUCTION MANAGEMENT: As far as an

incentive for privately financed winter-time projects is concerned is not what you want an incentive that would make it equally advantageous to the contractor, whoever he may be, to do the work in the winter-time as in the summer? The incentive to municipalities, I think, was a second motive in that it tends to increase the volume of the work that is done, and not merely switch it from summer to winter.

MR. MONTGOMERY: I think that that is true,

but since about two-thirds of the total construction volume carried out in Canada is private work, and since there is still in this country a considerable difference between the volume of private work carried out in the winter-time and that carried out during the balance of the year, it is our feeling that it should be of interest to government to do what it can to induce private industry to lower out this bill and valley affairs as much as they can. This is one way in which it might be done. What are carried out in the winter, of course, without special incentives. They are carried out for a great variety of reasons, such as getting the finished project ready for rental sooner, and so on and so forth. It would not necessarily mean a very large capital cost allowance incentive just to bring the winter



1 in many cases, to a winter-time operation.

2 COMMISSIONER MACKINTOSH: I am not quarrelling
3 at all with your intention. I was suggesting that
4 perhaps the exact pattern for municipalities was a
5 bit more than was required for this particular purpose.
6 I notice also that you recommend the extension of
7 N.H.A. provisions to mortgages on existing houses.
8 We have already had some discussion on that today.
9 This does not seem to be, in your business, a very
10 important matter.

11 MR. MONTGOMERY: Of course, since housing
12 is not our main business it is not of paramount
13 importance in our eyes, but nevertheless we feel
14 it is of considerable importance not only in enabling
15 easier trading of older homes but, to some extent,
16 we feel it would counteract the decay of certain
17 older areas of cities. Again, I would like to ask
18 Mr. Chutter about that.

19 MR. CHUTTER: I have not too much to add,
20 sir, except to say that this matter has been very
21 apparent to our membership; not only to builders,
22 but also to manufacturers and suppliers of materials
23 who see the scope of the programme south of the border.

24 We have made this recommendation, I think,
25 for about eight or nine years to the federal government,
26 that the extension of the N.H.A. provisions along
27 these lines would be a desirable thing. We have
28 modified our recommendation to the extent that this
29 should be held in reserve until the time when either
30 the supply of mortgage funds is sufficient to cope

in many cases, to a winter-time operation.

GOVERNMENT MORTGAGE BANK. I am not commenting

at all with your intention. I was suggesting that

perhaps the exact pattern for mortgagee was a

bit more than was required for this particular purpose.

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We have already had some discussion on that today.

This does not seem to be, in your business, a very

important matter.

MR. WATSON: Of course, since housing

is not our main business it is not of paramount

importance in our eyes, but nevertheless we feel

it is of considerable importance not only in extending

rather trading of other houses but, to some extent,

we feel it would counteract the danger of certain

other areas of activity. Again, I would like to see

Mr. Whitaker agree that.

MR. WHITAKER: I have not come to any

conclusion to say that this matter has been very

important to our membership, not only to members,

but also to mortgagee owners and suppliers of materials

who see the scope of the programme south of the border.

We have made this recommendation, I think,

for about eight or nine years to the Federal Government

that the extension of the M.H.A. provisions along

these lines would be a desirable thing. We have

modified our recommendation on the extent of this

should be held in reserve until the time when either

the supply of mortgage funds is sufficient to cover



1 with additional demand, or when the market for new
2 housing may be either levelling off or tapering off.
3 Within the last year or so I think the feeling of
4 our membership has been that the time is about now,
5 or that it is just immediately around the corner.

6 I think the prevalent feeling is that
7 this would be a desirable thing to have in the industry,
8 and for those who want to buy homes. Our interest
9 is not entirely selfish. Some people like to start
10 off with an older home, but with the larger down-
11 payment required, and the higher financing costs,
12 etc., they have found it impossible.

13 COMMISSIONER MACKINTOSH: I am glad
14 to hear you mention that, because so far I do not
15 think anybody has been concerned with the poor fellow
16 who is going to buy the house. It has seemed to me
17 that one of the major problems in this field concerns
18 the man who is transferred from one city to another
19 and who has not the time in which to build a house
20 and who, in many cities, cannot rent an adequate house.
21 If he wishes to buy an existing house he is met
22 by the requirement of a very large down-payment.
23 This has held up the mobility of skilled and trained
24 labour to quite a substantial extent. I have some
25 other questions, Mr. Chairman, but I think I should
26 defer them if my other colleagues have questions to
27 ask.

28 COMMISSIONER LEMAN: I have just one
29 question on the point you have touched upon, Dr.
30 Mackintosh. How do you think this winter works programme



1 with additional demand, or when the market for new
2 housing may be either leveling off or tapering off.
3 Within the last year or so I think the feeling of
4 our membership has been that the time is about now,
5 or that it is just immediately around the corner,
6 I think the movement feeling is that

7 this would be a desirable thing to have in the industry,
8 and for those who want to buy homes. Our interest
9 is not entirely selfish. Some people like to trade
10 off with an older home, but with the larger down-
11 payment required, and the higher financing costs,
12 etc., they have found it impractical.

13 I am kind
14 to hear you mention that, because as far as I do not
15 think anybody has been concerned with the poor fellow
16 who is going to buy the house. It has seemed to me
17 that one of the major problems in this field concerns
18 the man who is transferred from one city to another
19 and who has not the time or money to build a house
20 and who, in many cities, cannot rent an adequate house.
21 If he wishes to buy an existing house he is met
22 by the requirement of a very large down-payment.

23 This has held up the mobility of skilled and trained
24 labor to quite a substantial extent. I have seen
25 other questions, M. G. Johnson, but I think I should
26 defer them if my other colleagues have questions to
27 ask.

28 I have just one
29 question or two that you have touched upon, but
30 Mainly, how do you think this housing program



1 would work? We have to be practical about this.
2 Would all winter works become work that would not have
3 been done during the winter had it not been for the
4 incentive, or ---

5 MR. MONTGOMERY: That is a rather tricky
6 point. There are, of course, types of work that
7 it is not practical to do in the winter. Certain
8 types of highway work cannot be done in the winter.
9 A lot of winter work would still be possible without
10 incentives if we had a proper planning ahead so that
11 foundations could be laid in the milder months and
12 the buildings completed inside in the winter-time.
13 That is understood. We do know that many companies
14 defer the start of work until April or May, and that
15 is work that they could very well have started in
16 the more or less dead months of December, January
17 and February if there was some real inducement for
18 them to do so.

19 COMMISSIONER LEMAN: I am not quarrelling
20 with the objective now. I am asking you if you
21 visualize a system that would have a large complex
22 of regulations, or whether you just say that winter
23 work is work that would not have been done otherwise
24 had it not been eligible for the incentive, in which
25 case you can get into a lot of arbitrary decisions.
26 I am just wondering how practical this is, really.
27 That is my question.

28 MR. CHUTTER: It just happens, gentlemen,
29 that I am the secretary of an organization known
30 as the National Joint Committee on Winter-time

Would all winter work become work that would not have

been done during the winter had it not been for the

incentive, or ---

MR. WINTERBURN: That is a rather tricky

point. There are, of course, a great many

it is not practical to do in the winter. The main

types of highway work cannot be done in the winter.

A lot of winter work would still be possible without

incentives if we had a proper planning agency to put

together work that could be done in the winter months and

our buildings constructed outside in the winter-time.

That is understood. We do know that many companies

after the start of work would look at May, and then

is with that they could very well have started in

the more or less good months of September, October

and February is about the same and in January, for

them to do so.

MR. WINTERBURN: I am not sure that

with the incentive now, I am asking you if you

visualized a system that would have a lower incentive

of regularity, or whether you just say that winter

work is work that would not have been done otherwise

had it not been incentive for the incentive, in which

case you can get a lot of activity during the

I am just wondering how much of that is, really,

that is my question.

MR. WINTERBURN: It is a very difficult question.

that I am not sure. I am not sure that

as the National Bureau of Economic Research



1 Construction which has representation on it from
2 the buyers of construction, the Canadian Manufacturers'
3 Association, the Canadian Chamber of Commerce, and
4 so forth, and also the design professions. It is
5 the feeling of these representatives -- and after all,
6 they represent the buyers of construction -- that
7 whereas to an increasing extent there is a greater
8 acceptance of the fact that winter-time construction
9 is not , in most cases, either inferior in quality
10 or excessive in cost, and actually is comparable,
11 there is a built-in traditional prejudice against
12 winter-time construction in the minds of many buyers
13 of construction. The incentives which I think our
14 own association, and this National Joint Committee
15 on Winter-time Construction, have in mind are not
16 large-scale hand-outs, or excessive or unreasonable
17 ones. I think the feeling is that they are more
18 inclined to appeal to the psychological interest of
19 buyers, as was mentioned by our president. They
20 are just one extra factor which could swing the
21 decision.

22 Some companies, of which your own is one,
23 disregard the calendar, but there are many companies
24 that do not. Their own fiscal periods and their own
25 habits have an effect on their decisions.

26 The type of incentives that has been
27 suggested to the government is felt to be reasonable,
28 and will have some effect on the costs of construction.
29 It is one of those ironies that most of the construction
30 materials are exempt from the federal sales tax, but

Constitution which has representation on it from
the House of Commons, the Canadian Manufacturers
Association, the Canadian Union of Commerce, and
so forth, and also the design professionals. It is
the feeling of these representatives -- and after all
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is not, in most cases, either inferior or costly
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winter-time construction in the minds of many owners
of construction. The perspective which I think you
own association, and this National Joint Committee
on Winter-time Construction, have in mind are not
large-scale hand-outs, or excessive or unresponsibly
done. I think the feeling is that they are now
inclined to appeal to the practical interest of
owners, as was mentioned by Mr. de la Roche. They
are just one extra factor which could swing the
decision.

Some companies, of which you are one,
is beyond the calendar, but there are many companies
that do not. Their own fiscal periods and their own
budgets have an effect on their decisions.

The type of incentives that has been
suggested to the government is left to be developed,
and will have some effect on the cost of construction.
It is one of those things that most of the construction
materials are exempt from the federal sales tax, but



1 those that facilitate winter-time construction still
2 have the sales tax applied to them, and that seems to
3 be a little inconsistent. Dollar-wise it is not a
4 large amount to the user of the materials, or to
5 the government, but the removal of the tax on those
6 materials would be a little extra incentive for the
7 people to go out and get heaters and the wrappings
8 that will facilitate winter-time construction.

9 In so far as the owner is concerned, one
10 of the main suggestions was that if a project was
11 commenced in the winter months there would be some
12 slight adjustment on the capital cost allowance in
13 the first winter. If it is a two-year or a three-year
14 project then obviously there is going to be winter
15 work anyway. There is no suggestion that everybody
16 should benefit from such incentives just because
17 they accidentally happen to qualify.

18 There are double depreciation schemes
19 available to manufacturers. There are various types
20 of such incentives that are in existence. It does not
21 seem to those who are mooting this that it will provide
22 any unusual administrative problems. Their feeling
23 is that this will appeal to the financial people
24 involved in companies, and that such extra incentives
25 will be sufficient to influence those people when
26 they are deterred from some slight increase in
27 construction costs that may be encountered
28 in going ahead in the winter-time.

29 COMMISSIONER MacKEEN: What about the
30 very long-term project which is normally closed down



those that facilities which would be available to have the water tax applied to them, and that seems to

be a little inconsistent. But it seems to me that a

large amount to the cost of the materials, or to the government, but the removal of the tax on those materials would be a little extra incentive for the people to go out and get materials and use them.

that will facilitate water-use construction.

In so far as the cost is concerned, one

of the main suggestions was that if a project was

commenced in the winter months there would be some

slight adjustment in the capital cost allowance in

the first winter. If it is a two-year or a three-year

project then obviously there is going to be winter

work anyway. There is no suggestion that everybody

should benefit from such incentives just because

they occasionally happen to qualify.

There are double depreciation schemes

available to manufacturers. There are various types

of such incentives that are in existence. It does not

seem to those who are working this that it will provide

any unusual administrative problems, that is, that

is that this will appeal to the financial people

involved in corporate, and that such extra incentives

will be sufficient to influence these people when

they are deterred from some slight increase in

construction costs. There may be some question

in going ahead in the winter-time.

COMMISSIONER WINTER: What about the

very long-term project which is currently closed down



1 during the winter months and then recommenced in
2 the spring-time. Would there not be a tendency to
3 defer work which would normally be done in the summer
4 months if there is to be some form of bonus for working
5 through the winter months?

6 MR. CHUTTER: No, sir. I think the feeling
7 of these groups is that the criterion should be the
8 same as in the existing federal scheme, and that is
9 that the incentive should be tied in with payrolls.
10 This would indicate that the work had actually been
11 carried on in the winter months.

12 COMMISSIONER MacKEEN: That is, work that
13 would not have otherwise been done?

14 MR. CHUTTER: If it happens to be a capital
15 cost allowance then it would be based on the winter
16 payrolls on that job in the first winter of construction,
17 so there would be no way of avoiding it. It is related
18 directly to employment on the job site.

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during the winter months and then recommenced in
the spring-time. Would there not be a tendency to
defer work which would normally be done in the summer
months if there is to be some form of bonus for working
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of these grounds is that the situation should be the
same as in the existing Federal scheme, and that is
that the incentive should be tied in with payrolls.
This would indicate that the work had actually been
carried on in the winter months.

would not have otherwise been done.
MR. CHUTTER: If it happens to be a typical

cost allowance then it would be based on the winter
payrolls on that job in the first winter of construction,
so there would be no way of avoiding it. It is related
directly to employment on the job site.



1 COMMISSIONER MacKEEN: In the summary
2 of recommendations, Mr. Montgomery, on page 24 you
3 say:

4 "Administration of monetary and fiscal
5 policies so as to avoid abrupt changes in
6 the volume of construction."

7 I suppose you are referring there to some extent
8 at least to tightness of money coming on all of a
9 sudden on industry; that would be the major points
10 that you have in view. Now, when this situation arises
11 the monetary authorities have to deal with that. It
12 does come on the monetary authorities very quickly
13 and they have to be more or less abrupt, which
14 necessarily disturbs the building industry, but has
15 anybody or have you any recommendations to carry out
16 as to how that might be avoided?

17 MR. MONTGOMERY: I would like to point out,
18 sir, the importance of the construction industry so
19 far as employment is concerned. We employ in the
20 field about 600,000 men and probably another 300,000
21 to 350,000 in factories making prefabricated materials
22 for construction, so that there is upwards of a million
23 workers involved in the construction picture in
24 Canada, and it is to a very great extent with this unemployment
25 or employment picture in mind that we urge that the
26 government consider this factor in the whole picture
27 when they are thinking of an abrupt change in
28 the administration of monetary and fiscal policies.

29 COMMISSIONER LEMAN: If they successfully
30 applied credit controls to buyers of construction



1 services rather than to contractors it would have
2 the same effect, wouldn't it?

3 MR. MONTGOMERY: Actually, we feel in
4 times of tight money that the controls should be on
5 the buyers of construction and not to the same extent
6 on the contractors. We have seen instances where
7 owners were able to get funds allotted to them for
8 a project, only to find that the successful bidder
9 on a job was unable to or only got funds to carry out
10 the project with great difficulty, and it would seem
11 to me that the brake, if any, should be on the purchaser
12 in the first place.

13 COMMISSIONER LEMAN: Yes, but that wasn't
14 my question, Mr. Montgomery. If they successfully
15 applied the credit controls to buyers rather than
16 to contractors, from the point of view of these abrupt
17 changes the effect would be the same, wouldn't it?

18 MR. MONTGOMERY: Yes.

19 COMMISSIONER LEMAN: In the construction
20 industry it doesn't matter if you prevent the buyer
21 for the services from being able to pay for them or
22 if you prevent the contractor from being able to do
23 the work; the fluctuation on the construction industry
24 is the same, isn't it?

25 MR. CHUTTER: I think that the policy text
26 on this point says as much as possible, and I think
27 it is the feeling that there are limits to which
28 this desirable objective can be adhered to because,
29 as was mentioned, crises seem to come up but, as our
30 predecessors mentioned, sometimes there has been a very



and I am sure that it would have

the same effect. I am

very much interested in the

view of things which you have

the interest of the country and the same extent

on the contrary. We are

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1 appreciable loosening of, say, credit in the housing
2 field and all of a sudden there is funds and money
3 coming out of their ears and there is a great expansion
4 and that sometimes has growing pains. Then there is
5 a change in policy and maybe half of that extra
6 amount is cut off, and this makes it difficult for
7 builders and manufacturers and everybody to gear
8 themselves to these ups and downs of volume which
9 are occasioned, in so far as that is concerned, by
10 policy.

11 Now, as I say, the policy text says "as much
12 as possible", and if there can be a healthy steady
13 increase, that would be the desirable ideal. It cannot
14 always be obtained, certainly, but if more consideration
15 could be given to the effects of these policies on the
16 industry, this would be appreciated.

17 COMMISSIONER MACKINTOSH: Are you referring
18 specifically to large amounts of government money
19 put into N.H.A. loans, say, in 1957 and succeeded
20 by tight money; are you thinking of this experience?

21 MR. CHUTTER: This is one example. There are
22 others in varying degrees in other fields in our industry.
23 Take the highway programme for instance. A large programme
24 may be called for and the industry gets geared to carry it
25 out. They have a very large investment in road building
26 equipment (it is very expensive) and then there will
27 be a lull before anything happens for several years of
28 a comparable nature.

29 We as an industry would prefer to see a sort
30



1 of continuous planning so that as one major programme
2 comes to an end there is something there to take its
3 place. The latter is necessary, but there
4 is not always a continuation. To
5 varying extents this occurs in different parts
6 of the industry.

7 THE CHAIRMAN: We will adjourn now for 10
8 minutes.

9 --- Recess.

10 THE CHAIRMAN: We will now resume.

11 COMMISSIONER MacKEEN: You refer in here
12 to the position of the buyer with relation to the
13 contractor on a short-term contract rather than a
14 long-term contract, and it would be difficult once
15 the job is undertaken to restrict the buyer after
16 he has made his financial arrangements; if the
17 credit were suddenly cut off this would have a very
18 bad effect indeed on the contractor, would it not?

19 MR. MONTGOMERY: That is right.

20 COMMISSIONER MacKEEN: Just what terms of
21 control do you have in mind?

22 MR. MONTGOMERY: What we are trying to say
23 I think there, sir, is that it is a wrong thing to
24 allow the owner to have all the credit he needs
25 for the construction of a facility and then to restrict
26 the contractor in his credit when he gets the contract,
27 when he has the contract to build it. That has
28 happened in the past in times of tight money. In other
29 words, if there are to be controls they should be
30 applied at the owner's level rather than at the



1 contractor's level. Once the permit has been issued or
2 financing has been arranged for a project, that
3 project should be allowed to proceed and not be held
4 back because the credit of the contractor is curtailed,
5 all things being equal.

6 COMMISSIONER MACKINTOSH: Except where the
7 project is done by the contractor.

8 MR. MONTGOMERY: I said all things being
9 equal.

10 COMMISSIONER LEMAN: Are you strictly talking
11 about bank credit here?

12 MR. MONTGOMERY: Not entirely, no.

13 MR. CHUTTER: Just as an illustration, there
14 have been times in the post-war period when there have been
15 credit curbs or restrictions on the volume of
16 commercial loans from the chartered banks. For
17 example, as has been mentioned in the brief, the
18 construction industry is particularly affected because
19 it relies on the chartered banks for so much of its
20 working capital requirements.

21 At that time the banks, for example, were
22 asked to hold their loans at the same level as the
23 previous year, or 90 per cent, or something of that
24 nature. The owners might have alternative sources
25 of financing -- the security markets or their own
26 funds, or whatever -- and they have money to go ahead
27 with the project, but the individual contractor
28 initially, whenever we have these credit curbs, his
29 bank manager is inclined to say, "Well, regardless
30 of the amount of work you have on the books now or



1 which is coming up, under the present regulations
2 I can only give you as much working capital as you
3 had last year or X per cent of that" and it may be
4 that an individual contractor had, say, \$5 million
5 worth in the previous year but he now has \$10 million
6 worth, and some of that is for defence projects and
7 they are essential. In the two instances that this
8 has happened since the war we have had to make
9 representations to the Bank of Canada that contractors
10 should be dealt with on an individual basis, and we
11 have gone to the chartered banks and their head offices
12 are inclined to say, "It is not our policy to hold
13 an individual contractor to X per cent of what his
14 line of credit was last year," but this has on both
15 occasions been the story that most of the branch
16 managers tell the contractors, and we have to go
17 through the same thing again which has taken about
18 six or eight weeks to get the word down from the top
19 to the bottom, and I think this was the type of example
20 which we had in mind. It is not the current situation
21 but it may be in the future again.

22 COMMISSIONER MacKEEN: Do you bring
23 this under your recommendation 6?

24 MR. CHUTTER: No sir.

25 COMMISSIONER BROWN: Do you request
26 that the six to eight weeks be reduced to six to
27 eight hours?

28 MR. CHUTTER: Fine, and that contractors,
29 in so far as their credit is concerned, be dealt with
30 on an individual basis depending on their own credit



1 standing and needs. In these emergencies in the
2 past the contractor may not be more than two-thirds
3 as busy as he was the previous year and if the same
4 percentage applied to all contractors you will find
5 a few persons with a line of credit more than they
6 need and others with less than they require until
7 this thing sort of sorts itself out. This takes time.

8 COMMISSIONER BROWN: But I gather it
9 was sorted out in all cases?

10 MR. CHUTTER: Yes, generally speaking.

11 MR. MONTGOMERY: But there were a lot
12 of tears and travail, sir. I can recall an instance where
13 an owner has provided the funds to the contractor to
14 carry out the work under a situation such as that.

15 COMMISSIONER LEMAN: You are talking
16 about a situation where credit has to be rationed;
17 this sort of phenomenon can only happen where it is
18 being rationed. What would you think of another
19 approach, making sure that the only rationing that
20 would take place would be done through letting the
21 interest rates flow back and forth to the point where
22 they do influence decisions in order to avoid
23 rationing?

24 MR. MONTGOMERY: As far as I personally
25 am concerned, I am getting out into the wild blue
26 yonder; I am not an economist and I would like to
27 call on Mr. Fuller again for his comments on that.

28 MR. FULLER: I think that we are selling
29 an article at a certain price to somebody that either
30 can afford it or cannot afford it. For instance, if



1 we are building a shopping centre, Mr. Steinberg
2 may say, "One-half of one per cent of sales goes
3 for the building, period, not one cent more," and you
4 have to get in under that wire. In my opinion I think
5 there will be a lot of construction work that would
6 never go ahead if interest rates climbed, unless the
7 whole thing goes into inflation.

8 I think the banks in making loans should
9 take more cognizance of the credit standing of the
10 construction company to which they are loaning money,
11 and while this is not the Association view, my personal
12 view is that the situation of the construction industry
13 today with the high rate of bankruptcies and nobody
14 can get a job at a profit and the fact that there
15 is a development of more and more firms getting into
16 the business, can be laid at the front doors of the
17 bankers and the bonding companies of this country.

18 Credit is extended to people without
19 experience; you fire a carpenter foreman yesterday
20 and two days later he is in competition with you,
21 bidding on a quarter of a million dollar job against
22 you, and he gets the job and the bank loans him
23 \$40,000 to carry out the job. This is my personal
24 opinion, it is not the opinion of the Association
25 but there are a great many in the Association who feel
26 that way and there are others that think the contractors
27 should be loaned a bit more money with easier terms
28 and probably a higher rate of interest so that they
29 can pay their accounts and not keep supply houses
30 and the whole economy bogged down with accounts



1 receivable and nobody with any money to expand or
2 to get cash profits or cash flow into their business.

3 COMMISSIONER GIBSON: You made some
4 very interesting remarks, Mr. Fuller, about the
5 effect of interest rates on these big projects. You
6 said that they were very important, that the company
7 allocates such and such a proportion of its sales
8 to this and that therefore a change in the long-term
9 interest rate was very important. What about changes
10 in the case of short-term credit for construction
11 companies, is this important?

12 MR. FULLER: Do you mean by that that
13 the short-term credit would be a preferential rate
14 or that you are going to just put more risk capital
15 into the construction industry so that some fly-by-
16 nights can get credit because you are willing to take
17 a bit more interest rate for the risk involved?

18 COMMISSIONER GIBSON: I think that
19 Mr. Leman asked you a question about how much
20 effect did a change in bank interest rates have on
21 construction companies, and I understand the points
22 you made a few minutes ago, but this really is another
23 question.

24 MR. FULLER: A construction company
25 has to sell its services for its cost of operation plus
26 a profit, and it just means that it is passed on to
27 the purchaser, and the financing of a large general
28 contract by a general contractor wouldn't probably
29 be affected to any noticeable extent in the over-all
30 price of the completed building, but when you multiply



to get each machine on line from their previous
a single unit. The machine

very interesting remarks. He follows about the
effect of interest in the market. You
also that they were very much interested in the company
affiliated and was a very good one. It is a
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Mr. James asked for a question about the company
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Mr. James asked for a question about the company

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1 the sub-contractor's financing together with the
2 supplier's account receivable and his financing,
3 together with all the rest of them right down the line,
4 the trucker and the shipper and everybody, you compound
5 the thing and then it becomes considerable.

6 COMMISSIONER GIBSON: Would you say that
7 a rise in interest rates would have the same restraining
8 effect?

9 MR. FULLER: I am not enough of an
10 economist to know how to carry it down the line, but
11 I would say that the most negligible part would be
12 the general contractor's necessary financing, that
13 would be the smallest item. That would be less,
14 probably, than the compounding of the sub-contracting even
15 to truckers having to get higher percentages,
16 this would raise the cost more than the other.

17 COMMISSIONER GIBSON: I believe you
18 went on to say that the suppliers had to be financed,
19 and the sub-contractors, and so on; when you added
20 that in it became important?

21 MR. FULLER: It becomes very important
22 because it is all compounding on top of each other,
23 and that is in the bid and that goes into the
24 inflation.

25 COMMISSIONER GIBSON: Would you say
26 that rising interest rates had some restraining
27 effect on the industry in the sense that they cannot
28 make as good a bid as they otherwise could, and a
29 fall in interest rates would enable them to be more
30 competitive?



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the thing and then it becomes completely

CONFIDENTIAL SOURCE: Would you say that

a rise in interest rates would have the same restraining

MR. PHILLIPS: I am not enough of an

economist to know how to carry it down the line, but
I would say that the most restrictive part would be

would be the smallest item. That would be the

probably, from the standpoint of the sub-contracting
to truckers having to get higher percentages.
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MR. PHILLIPS: It becomes very important
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and that is in the end and that goes into the

CONFIDENTIAL SOURCE: Would you say

that rising interest rates had some restraining
effect on the industry in the sense that they cannot
move as good a bid as they otherwise could, and a
fall in interest rates would enable them to be more

competitive?



1 MR. FULLER: Not more competitive with one another
2 but with the falling interest
3 /rates and the same competition it would allow the
4 building to be tendered at a cheaper price.

5 COMMISSIONER GIBSON: These things would be
6 just passed on, would they, whether it rises or falls?

7 MR. FULLER: The construction business or
8 a sub-contractor's business, as I say, is a service
9 business and on which you take your costs; you take
10 your costs of operation and put a percentage on it
11 for your profit, and that is your quotation.

12 COMMISSIONER BROWN: And these higher
13 quotations would affect the marginal project whether
14 it was proceeded with or not?

15 MR. FULLER: I think it all gets down
16 to the fact that we just apply the bigger fighting
17 force. I am not an economist and I am beyond my head
18 here, but you asked me that question.

19 COMMISSIONER GIBSON: But the cost of the
20 final article goes up and down pretty faithfully;
21 whatever the effect that change in cost has on demand
22 is what will determine the change in interest rates?

23 MR. MONTGOMERY: Not directly; there is a
24 lag, of course. If the change in interest rates takes
25 place during the progress of a lump sum job, that
26 lump sum job is in effect because the price is already
27 made, but it would necessarily be a cost of doing
28 business and would be reflected in higher or lower
29 costs, as the case may be, in subsequent work.

30 MR. FULLER: I would say that a change in
interest rates would not generally effect the



1 construction price for a period of three years; that
2 would be a rough estimate.

3 COMMISSIONER GIBSON: You mean in large
4 projects?

5 MR. FULLER: No, I am speaking about almost
6 a minor project.

7 COMMISSIONER GIBSON: Why would it be so
8 long?

9 MR. FULLER: Well, it generally takes a
10 a year to build a medium-sized project, or seven or
11 eight months, and it takes considerable time to collect
12 the prices before the contract is awarded. It may
13 be a year or it may be six months, and if it is a
14 tendered price, that is one thing, but if it is the
15 economy of the owner-builder or the contractor-builder,
16 where he starts figuring that it will cost so much
17 and he has a year of planning before he starts to
18 go ahead and a year to construct, there is no effect
19 for two years.

20 COMMISSIONER GIBSON: If your thesis is
21 right, the effect of monetary policy on the construction
22 business probably acts in reverse because three years
23 from now business is very likely to be moving in a
24 different direction from what it is now.

25 MR. FULLER: I wouldn't say it was rapidly
26 reflected at all because there are two categories;
27 one is the straight contract for a given price and I
28 would say that that would be affected by three months
29 plus the life of the job and then the picture would
30 change.



1 The other is the initiated programme which
2 is carried out by the builder and which may be a year
3 in planning, and then he gets so far with it and
4 has so much money tied up in architectural fees
5 and all the rest of it and he gets in a position where-
6 he says that he will go ahead anyway and he is not ---

7 MR. CHUTTER: I think one distinction
8 is the effect of interest rates and other financing
9 costs to the buyer in one parcel, and this also has
10 an effect on the contractor's operation, and there
11 is one point made by the question asked whether a job
12 might not go ahead in the case of a marginal type of
13 construction. This does happen quite frequently
14 because his financing problems may sometimes be more
15 acute than that of the contractor or it may frequently
16 result in scaling down of the job. If there is an
17 estimate of \$500,000 and because of an increase in
18 interest rates or any other increase in costs that
19 job then comes in at \$550,000 and the owner only has
20 so much financing, then he has to delay the project
21 until he gets more money, or he may decide to revise
22 the specifications so that they can come within the
23 budget.

24 MR. FULLER: There is another thing that
25 governs quite a bit as to whether the project goes
26 ahead or not, and that is in these lease-back propositions
27 in your initial stages you have your depreciation and
28 you have the interest paid on your mortgage and you
29 have your mortgage principal; the first two are deductible
30 for income tax purposes and the other is not.



1 Well, in the present structure of about
2 7 per cent and with tight competition this can go down
3 and disappear on a 20-year mortgage; they disappear
4 about the tenth year and then jump across to the
5 fifteenth year and from there on there is no cash
6 flow, everything is absorbed and everything from then
7 on has to be directed to keeping the project alive.
8 Somebody has to put in additional money at the end of
9 that period and that will affect the economy and by
10 raising this bank interest you quickly shorten the
11 period again, and often it will shorten up to about
12 seven years and that in turn means that if you are
13 formulating a position of lease-back, you want to take
14 care of the position that you are not going to have
15 to find additional funds in seven years' time in
16 order to own the building or that you have got to
17 give it away or get rid of it, it is a loss from then
18 on, but it is interesting if you look at ^{what} one per cent
19 more in the interest rate will do, how rapidly it
20 advances it up to scale. At 5 per cent you get down
21 to about the fifteenth year and at 7 per cent it
22 moves it up almost to the fifth year.

23 COMMISSIONER MacKEEN: It was more a question
24 of interest during construction and the method of getting
25 away from the bank manager by cutting everybody down
26 rapidly and whether it would be better from industry's
27 viewpoint to pay a certain percentage more to be
28 able to get the money and not to be able to get it
29 except with a certain ---

30 MR. FULLER: My answer to that is that I



1 think the Bank of Canada -- or whoever it is that
2 puts pressure on the chartered banks -- should not
3 put pressure in a manner that if a contractor has
4 adequate security that he is bound to any limitations
5 in order to carry out his business.

6 MR. MONTGOMERY: I think Mr. Chutter brought
7 up the point, whether you noticed it or not, that it
8 may frequently happen in times such as were mentioned
9 of tight money that a contractor would not have very
10 much work in hand and would have a large block of
11 unused credit, and where his neighbour just by chance
12 has secured more work than his reduced line of credit
13 would allow for, and we advocate that some discretion
14 be used in reviewing the field rather than making
15 it a mandatory cut right across the board.



THE UNITED STATES OF AMERICA

ON this 1st day of June, 1944

before me, the undersigned, a Notary Public in and for the State of New York, personally appeared

_____ a person whose name is subscribed to the foregoing instrument, acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this 1st day of June, 1944.

Notary Public in and for the State of New York

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unused credit, and where his neighbors just by chance

has secured more work than his reduced line of credit

would allow for, and we suggested that some discussion

be used in reviewing the field rather than making

it a necessary and right across the board.



1
2 COMMISSIONER MacKEEN: Mr. Montgomery, suppose
3 two different contractors deal with two different
4 banks. One might have more work to get finances for one
5 than the other one and how is the branch bank
6 manager going to determine between them?

7 MR. MONTGOMERY: I do not pretend to know
8 how much information they exchange, sir. I suppose
9 it is always open to the contractor with insufficient credit
10 to go elsewhere, to another bank. I suppose that
11 if he did go to another bank, then that bank would
12 consult with his first bank. There must be some sort
13 of consultation. Have you any reflections to offer
14 on this Mr. Chutter?

15 MR. CHUTTER: When this has come up, in
16 our experience, the local branch manager applies to
17 his superiors and he may get the details.

18 COMMISSIONER MacKEEN: That causes the
19 delay to which you refer?

20 MR. CHUTTER: That causes the delay, yes.

21 COMMISSIONER MACKINTOSH: You spoke a little
22 while ago about rather violent shifts in credit
23 conditions or government expenditures, which created
24 difficulties in the industry, and you said there have
25 been some of those as between residential and non-
26 residential construction. Now, I take it it is
27 obvious that much of the equipment in non-residential
28 construction is not transferable. How about the labour?
29 Do trades people move fairly freely between non-
30 residential and residential construction?



COMMISSIONER: Now, Mr. Chairman, suppose

two different contractors deal with two different banks. One might have more work to get done for one than the other, and how is the business bank

manager going to determine between them? Mr. MONROE: I do not pretend to know

how much information they exchange, Mr. I suppose it is always open to the contractor with insufficient credit to go elsewhere, to another bank. I suppose that

if he did go to another bank, then that bank would receive with his first bank. There would be some sort of consultation. Have you any suggestions to offer

Mr. WATSON: When this has come up, in my experience, the local branch would apply to the directors and he may get the details

COMMISSIONER: Now, Mr. Chairman, what would be the

reply to which you refer?

Mr. CHURCH: That covers the delay, yes. COMMISSIONER: Now, Mr. Chairman, you spoke a little

while ago about rather violent action to create conditions of government expenditures, which creates difficulties in the industry, and you said there have been some of these in between the central and the

residential construction. Now, I come to it in obvious that much of the equipment in non-residential construction is not residential. Now about the labor

Do these people have fairly fairly between non-residential and residential construction?



1 MR. MONTGOMERY: I would not say they moved
2 too freely, Dr. Mackintosh. It would seem to me that
3 quite a different class of sub-contractors, for
4 example, work on residential construction than on non-
5 residential construction, and largely they would use
6 a different type of labour. Common labour would go
7 back and forth. Carpenters, and people like that,
8 but many trades that are represented in the non-
9 residential construction are not represented in the
10 residential construction, such as welders, machine
11 operators of one kind and another, et cetera. I
12 think the lower down the scale in skill the more inter-
13 change there would be. I think your question is
14 based on the unemployment picture.

15 COMMISSIONER MACKINTOSH: Yes.

16 MR. MONTGOMERY: Yes. I would say so
17 far as that is concerned there would considerable
18 interchange in the lower skills where the unemployment
19 picture is the worst.

20 COMMISSIONER MACKINTOSH: Later in your
21 brief you refer to the Industrial Development Bank
22 and you say that a certain number of your members
23 operate relatively small businesses. Have you any
24 views to express on the adequacy of the financing of
25 small business? We have had some representations
26 on that. Is there any evidence to be derived from
27 your industry?

28 MR. MONTGOMERY: I am going to ask our
29 general manager to speak to that.

30 MR. CHUTTER: I wonder, sir, if you could



1 amplify the question. Is it a question of small businesses
2 in the construction industry having more difficulty
3 than medium and larger size firms?

4 COMMISSIONER MACKINTOSH: Yes. Are there
5 any particular problems?

6 MR. CHUTTER: This can only be a general
7 statement, but I think most people who are entering
8 on construction in, say, a fairly modest way do so
9 in the field of small jobs. These may be repairs or
10 the building of houses, or small operations in the
11 commercial and industrial field, and in consequence
12 their financial requirements are relatively small.

13 If it is in building construction a lot
14 of the work, in effect, is sub-contracted out so that
15 their individual share of the financing is reduced, and
16 not an awful lot of financing is involved. If they
17 can keep a month ahead of their bills, that is
18 sufficient. A lot of them get their initial bank
19 credit through a guarantor who puts up a note for them,
20 or they get trade credit. I would say there is a pretty
21 prevalent feeling in the industry that in most years
22 it is very easy to get into the construction industry
23 and finance your operations, providing there is a
24 demand for construction, and even where there is not,
25 if there is a lot of credit available, then it does not
26 seem to be too hard to obtain it.

27 If you are getting into engineering
28 construction this is a different situation because then
29 rather expensive equipment is involved so this should
30

emphasize the question. Is it a question of small business?

in the construction industry having more difficulty

than medium and larger size firms?

JOHNSTON: Yes. And there

any particular problems?

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can keep a month ahead of their bills, that is

relief. A lot of them get their bills paid

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or they get trade credit. I would say there has been

prevailing feeling in the industry that in most years

it is very easy to get into the construction industry

and finance your operations, everything came in

demand for construction, and even when there is not,

it there is a lot of credit available. Then it does not

seem to be too hard to come in.

It is not getting into engineering

construction this is a different situation because that

much expensive equipment is involved so that small



1 mean that the contractor must have more financial
2 resources, or know somebody who has, in order to
3 establish himself in business, but once again in time
4 of equipment surplus it can be very easy for them to
5 get or lease this equipment. I do not think this
6 has been a problem. In fact, in some years it may be
7 just the opposite.

8 COMMISSIONER MACKINTOSH: I gather the I.D.B.
9 has made a number of loans to construction companies.

10 MR. CHUTTER: Yes, but as borne out in our
11 brief this has been a relatively insignificant thing
12 so far. In the last couple of years the volume has
13 increased twenty times. This is because of a policy
14 decision that they have undertaken to make loans to
15 contractors to a greater extent, and most of these
16 have been for equipment. However, since they have
17 been in that business I think the total volume of loans
18 they made to contractors has been \$13 million, and
19 as of last September the chartered banks had loans out
20 of \$245 million and the finance companies as is shown by their
21 annual volume of loans on construction equipment to
22 the construction industry, lend about \$200 million.
23 Therefore the I.D.B. at \$6 million, in its best year
24 to date, has not made a very significant contribution.

25 COMMISSIONER MACKINTOSH: I have another
26 small question. You mention in the course of your
27 brief foreign investors as a source of large loans
28 for construction. Is that a pretty substantial and
29 significant source?

30 MR. MONTGOMERY: In certain areas of the



1 country it seems to be. I am speaking now of Montreal.
2 It has been quite significant in the Montreal area. I
3 am not sure what the situation is up here.

4 MR. FULLER: Very high in Ottawa.

5 COMMISSIONER MACKINTOSH: This is the
6 financing of special projects?

7 MR. FULLER: No, the financing of office
8 buildings and apartment houses and special projects,
9 but generally of the office building type.

10 MR. STEIN: I would substantiate that. There
11 has been a great deal of foreign capital brought into
12 Montreal for commercial building and high rise apartments.

13 MR. CHUTTER: There would also be some
14 industrial parks such as in Toronto and the outskirts
15 of Vancouver, which are large scale projects, largely
16 financed from abroad.

17 MR. MONTGOMERY: And there is the town of
18 Candiac, in Quebec, just outside Montreal.

19 COMMISSIONER BROWN: Could we ask you to
20 illucidate a little more in detail your comments in
21 paragraph 74 about mechanics' liens and trust provisions?

22 MR. MONTGOMERY: Mr. Saunders, would you
23 care to speak to that one?

24 MR. SAUNDERS: I think Mr. Chutter should.

25 MR. CHUTTER: What aspect in particular
26 are you interested in Mr. Brown?

27 COMMISSIONER BROWN: You say: "In several
28 provinces 'trust provisions' have been incorporated
29 in the lien legislation"

30 MR. CHUTTER: Yes, in the provinces of Ontario,



1 Manitoba and New Brunswick there are what are generally
2 called trust provisions. They vary a little bit in
3 detail but generally speaking they mean that hold back
4 money -- as you know, as a construction project pro-
5 gresses the owner usually advances funds each month
6 to help finance the construction activities, and if
7 the progress estimate one month is \$100,000 the owner
8 is required to hold back a certain amount, usually
9 15 per cent. These hold-backs in the three provinces
10 are designated as trust funds and this has been
11 substantiated in the courts in recent years, that
12 the creditors of, say, a bankrupt firm, if they are
13 trade contractors from whom this money has in turn
14 been held back, then this is considered to be trust
15 funds in their right, and this has been of some
16 concern to the chartered banks who feel they might
17 have a prior claim on the assets of the bankrupt
18 company or a preferential position in the scheme of
19 things. There have been a variety of cases which
20 established that the banks are more or less put on
21 the same basis as other creditors.

22 This has led the Canadian Bankers Association
23 and others to be actively interested in removing the
24 trust provisions of this type of legislation. In
25 Ontario there is currently being undertaken a very
26 comprehensive review of the Mechanics Lien Act and
27 the banks have taken the attitude that if they do
28 not have what they consider to be their normal or
29 understood status in such things, then they will have
30 to be less generous in the extension of credit to

view where a bank are generally

called from provisions. They vary a little bit in detail but generally speaking they mean that hold back money -- as you know, as a corporation must pay to the owner usually advanced funds each month to help finance the construction activities, and if the progress estimate one month in \$100,000 the owner is required to hold back a certain amount, usually 15 per cent. These hold-backs in the three provinces

are designated as trust funds and this has been substantiated in the courts in recent years, that the creditors of, say, a bankrupt firm, if they are trade contractors from whom the money has in turn been held back, then this is considered to be trust funds in their right, and not a part of some concern to the chartered bank will feel they might have a prior claim on the assets of the bankrupt company, or a preferential position in the assets of things. There have been a variety of cases which established that the banks are none of less but on

the same basis as other creditors.

This was the Canadian Bankers Association

and others to be actively interested in removing the trust provisions of this type of legislation. In Ontario there is currently being introduced a very comprehensive review of the Insurance Act and the banks have taken the attitude that if they do not save what they consider to be their interest in unsecured claims in such things, then they will have to be less generous in the extension of credit to



1 construction companies if there is to be this additional
2 risk that has been established by the courts.

3 In the hearings that have taken place in
4 has
5 Toronto this year this/been put forward forcefully,
6 but others including our own Association have contended
7 that the trust provisions are desirable and worthwhile
8 provisions of these lien acts, and further we recommend
9 that provinces which do not have these trust provisions
10 should have them incorporated in their legislation.

11 That is a very general statement and some of the
12 other discussions in Toronto have related around the
13 length which this trust provision lasts. Generally
14 speaking, there is no expiry date and it has been
15 suggested that a time limit be put into the legislation
16 or regulations, after which the trust provisions have
17 no longer any application. That is the general back-
18 ground of the trust provisions.

19 COMMISSIONER BROWN: When you say that they
20 should last, I presume that they do not last past the
21 period -- when the hold-back period is over.

22 MR. CHUTTER: No.

23 MR. FULLER: The impression has been
24 created that it is the funds up to 15 per cent, but
25 it is any payment made under a contract which is
26 subject to the mechanics lien. If a progress payment
27 is made by the owner to a general contractor and he
28 deposits it in his bank the bank cannot use it to
29 reduce his overdraft.

30 COMMISSIONER BROWN: Say that again.



constitutor companies. If there is to be this additional risk that has been established by the courts.

In the language that is taken place in Toronto this year this year but forward forcefully, but others including our own Association have contended that the trust provisions are desirable and worthwhile provisions of these laws, and further we recommend that provisions which do not have these trust provisions should have them included in this legislation.

That is a very general statement and some of the other dimensions in Toronto have related around the length which this trust provision have. Generally speaking, there is no extra cost and it has been suggested that a time limit be put into the legislation on regulations, after which the trust provisions have no longer any application. That is the general background of the trust provisions.

COMMISSIONER MURPHY: What you say that they should last, I presume that they do not last past the period -- when the hold-back period is over.

MR. MURPHY: No.

MR. MURPHY: It is understood that it has been created that it is the fund up to 15 per cent, and it is any payment made under a contract which is subject to the provisions of the law. If a progress payment is made by the owner to a general contractor and he deducts it in his hand the bank cannot use it to reduce his overdraft.

COMMISSIONER MURPHY: Now that again.



1 MR. FULLER: If a progress payment is made
2 by an owner to a general contractor, or by a general
3 contractor to a sub-contractor, and he makes a large
4 deposit in his bank, the bank cannot use that money
5 to reduce his overdraft. It is regarded as trust
6 funds until everybody contracted for payment under
7 it has been paid.

8 COMMISSIONER BROWN: You go on and say the
9 same principle should be applied to non-lieniable
10 projects.

11 MR. CHUTTER: Certain projects are exempt
12 from the provisions of lien legislation, notably those
13 of governments at various levels. In other words,
14 federal projects are not lieniable. In most cases
15 provincial projects are not lieniable, and with regard
16 to municipal projects about half of them are not
17 lieniable. This was brought out in testimony at
18 the hearings in Toronto. The supplier of a contractor
19 for a federal project has no recourse if the contractor
20 goes bankrupt, and the same applies in a municipal
21 project. There have been abuses of this where companies
22 were set up, say to lay streets in a development, which
23 ultimately becomes municipal property,
24 and were deliberately bankrupted because this was a
25 cheap way to finance the project. The industry has
26 recommended that even with crown projects the hold-
27 back principle should apply and the lien principle.

28 COMMISSIONER BROWN: In putting this forward,
29 you are putting it forward not only on behalf of your
30 own people but on behalf of those of your members who



1 are sub-contractors?

2 MR. CHUTTER: They are a most important
3 part of our membership.

4 MR. STEIN: And the suppliers.

5 COMMISSIONER BROWN: What you are asking
6 is that the banks be a little more careful in the
7 credit they give!

8 THE CHAIRMAN: The banks are put in a
9 very awkward position.

10 MR. FULLER: I think there is a case now
11 before the courts to prove that even though the lien
12 does not exist the trust rights still exist.

13 MR. MONTGOMERY: I would ask Mr. Chutter
14 to sight the Hardy case here in Ottawa.

15 MR. CHUTTER: This was a rather conspicuous
16 example of a crown project on which the general
17 contractor happened to go into bankruptcy. The
18 contractor had been asked by the Department of
19 public Works to put up an extra security over and
20 above his usual security deposit because they thought
21 him some risk. There was the security deposit plus
22 another \$100,000 security deposit, plus the hold-
23 back. On a lieniable job all this money is retained
24 for creditors after statutory requirements of
25 wages and workmen's compensation etc. have been met. After
26 that the money is available to the creditors, but on
27 non-lieniable jobs, such as federal projects, this
28 security deposit plus the extra security deposit and
29 the hold-back were held primarily for the use of Her
30 Majesty to complete the project. They had to get



1 another contractor to complete the job and it was only
2 what was left after that was done that was distributed
3 among the creditors, sub-contractors and suppliers,
4 and there was not much. In this particular case
5 it was not enough whereas if it were a lienable job
6 the sub-contractors and the suppliers would have
7 received far more in the way of payments than they
8 did.

9 There are other problems on crown jobs in
10 that any equipment and materials on site in effect
11 become crown property. It so happened in this case that
12 a sub-contractor had brought in some very expensive
13 equipment two days before the bankruptcy and this was
14 transferred over to Her Majesty to use.

15 The use of payment bonds on federal projects
16 has eased this problem in recent years, but sub-sub-
17 contractors and suppliers to sub-contractors receive
18 nothing under payment bonds. This is an aspect of
19 trade credit and financing, especially to trade
20 contractors and suppliers, which causes a problem and
21 it is found more on public projects than on private
22 jobs.

23 Similarly, when a trade contractor goes
24 bankrupt it is the general contractor who has to
25 pick up the difference because he has a firm price
26 contract himself. It works both ways.

27 THE CHAIRMAN: Thank you very much,
28 gentlemen. It has been a very useful discussion and
29 we are much obliged to you.
30

contractor to complete the job and it was only

among the creditors, sub-contractors and suppliers,

and there was not much. In this particular case

it was not enough whereas if it were a financial job

the sub-contractors and the suppliers could have

received far more in the way of payment than they

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Similarly, when a contractor goes

bankrupt it is the general contractor who has to

pick up the difference because he has a firm with

contract himself. It works both ways.

THE CHAIRMAN: Thank you very much.

gentlemen. It has been a very lively discussion and

we are much obliged to you.



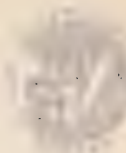
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1 We will adjourn now until tomorrow morning
2 at 9.15 A.M. to hear the Central Mortgage and Housing
3 Corporation and also, if time allows, we will be
4 prepared to begin our hearing of Mr. David Mansur's brief.

5
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7 --- Adjournment.



...will not be ...

...the Central Mortgage and Housing

...and also, if time allows, we will be

...prepared to begin our hearing of Mr. David Marshall's brief

Royal Commission on Banking and Finance

DOMINION MORTGAGE & INVESTMENTS ASSOCIATION.
NATIONAL HOUSE BUILDERS ASSOCIATION.
CANADIAN CONSTRUCTION ASSOCIATION.

Hearings
held at
OTTAWA

Vol.

42A

Date.

OCTOBER 16, 1962.



Official Reporters
J. J. Pethercut and R. J. Young
Toronto, Ont.



Nethercut & Young

Toronto, Ontario

S U B M I S S I O N

T O

R O Y A L C O M M I S S I O N

O N

B A N K I N G A N D F I N A N C E

MADE ON BEHALF OF ITS

MEMBER LOAN COMPANIES

BY

THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION

TORONTO

JUNE, 1962



C O N T E N T S

(1)

Brief being submitted by The Dominion Mortgage and Investments Association on behalf of its member Loan Companies.

1. Description and Objects of the Association.
2. Loan Company Defined.

The Capital Market and Member Loan Companies

3. Member loan companies direct savings into first mortgages secured by real estate.
4. Because loan companies are both lenders and borrowers they are doubly sensitive to monetary policies.
5. Member loan companies keep abreast of developments and trends in the financial markets.
6. Frequent and complete statements by the Bank of Canada should be left to its discretion.
7. Directors and control of loan companies.
8. Relationship with Investment Dealers and with Industrial Development Bank.
9. Securities markets in Canada have worked well.
10. Loan companies operate within a framework of legislative regulations.
Additional restrictions would impede elasticity of their participation in the capital market.
11. Artificial interest rates and the capital market.
12. Availability of insured mortgage loans to the financing of existing houses would create additional rigidity.



The Money Supply and Loan Companies

13. Loan companies do not escape the discipline of fluctuating interest rates.
14. Deposits with loan companies and the money supply.
15. Loan companies and cash reserves with the central bank.
16. Banks and cash reserves with the central bank.
17. Loan companies and cash reserves with banks.
18. Deposits with loan companies have no appreciable effect on the money supply.

Loan Companies in Canada

Special Items Reviewed

19. Borrowing powers of loan companies should be increased to 15 times paid in capital and reserve.
20. Deposit insurance not needed.
21. Member loan companies are opposed to the extension of the National Housing Act for the financing of existing houses.
22. Prepayment privilege given to individuals by the Interest Act necessitates a mortgage term no longer than 5 years.
23. Member loan companies have only a mild, theoretical interest in the development of a secondary mortgage market.
24. The present Income Tax allowable deduction for mortgage reserve of $\frac{1}{4}$ of 1 per cent per year to a maximum of 3 per cent should be increased



to $\frac{1}{2}$ of 1 per cent per year to a maximum of
6 per cent.

Historical

25. History of Loan Companies - Federal and Ontario
companies now operating - Appendix 1

26. Mergers, Liquidations, etc. - Appendix 2

Supervision

27. Incorporation of Loan Companies - Appendix 3

28. Supervision of Loan Companies - Appendix 1

29. Loan Companies are principally mortgage lenders.

As Gatherers of Savings

30. General Statement - Balance Sheet - - Appendices

4 and 4a

31. Borrowing limits - suggested increase to 15 times.

Debenture Liability

32. Over the counter.

33. Underwritings.

34. Security described.

35. Note Liability.

36. Safety recognized.

Deposit Liability

37. Not all Loan Companies take deposits.

38. Ordinary Deposits.

39. Special Deposits.

40. Liquidity Provisions - Appendix 5

41. Liquidity Provisions - Stand-by credit.

to 1/2 of 1 per cent per year to a maximum of 6 per cent.

History

History of Loan Companies - Federal and Ontario

Companies now operating - Appendix 1

Companies, liquidations, etc. - Appendix 2

Investments of Loan Companies - Appendix 3

Supervision of Loan Companies - Appendix 4

Loan Companies and principally mortgage lenders.

The formation of banks

General Statement - Balance Sheet - Appendix 5

and 1914

Following table - suggested increase in 1915.

Interest on deposits

Over two percent.

Under 1 percent.

Under 1 percent.

Deposit liability

Not all Loan Companies take deposits.

Under 1 percent.

Liability Provisions - Appendix 6

Liability Provisions - Appendix 7



42. Additional Liquidity - Central Mortgage and Housing Corporation.

43. Nature of Deposits - "small" saving.

44. Deposit Insurance not needed.

45. Clearings and Payment System.

As Investors and Lenders

46. General Statement - Investment and Lending Powers - Appendix 6

47. Not unduly restrictive.

48. Balance Sheet - Appendices 4 and 4a

49. Cash and Securities Investments.

50. Short Term Securities.

51. Corporation and Other Bonds.

52. Investment in Stocks - subsidiary companies.

53. Only a small factor in Securities Market.

54. Office Premises - number of employees.

55. Real Estate for Sale.

Mortgage Loans

56. Main Asset of Loan Companies.

57. Mortgage Asset described.

58. Relative position in mortgage field - Appendix 8

59. Pattern of Mortgage Lending.

60. Farm Loans - lack of demand.

61. Non-participation in National Housing Act lending.

62. Mortgage Loan described - Term and the Interest Act.

63. Element of Competition.



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64. Credit-worthiness, ground rules, diversification and responsibility for approval.
65. Purchase and Sale of Mortgages.
Secondary Mortgage Market
66. Loan Companies only mildly interested.
67. Participation of other holders of mortgages.
68. Individuals as Purchasers.
69. Pooling of Purchasing Power and Risk - Loan Companies as agents.
National Housing Act and the Existing House
70. Agitation for Insured Mortgage Loans.
71. Position of Loan Companies.
Income and Expenditures
72. General Statement - Appendix 7
73. Early years of historical interest only.
74. Interest the big factor - average rates.
75. Interest related to mean or average assets or liability.
76. Interest on Debentures and Deposits.
77. Wholesale sale of Debentures.
78. Steady cash flow and Borrowings.
79. Mortgage Interest - Rate.
80. Mortgage Interest - Competition.
81. Mortgage Interest - Competition.
82. Mortgage Interest - Rate Earned - Past trend -
Appendix 9
83. Administration Costs.



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84. Audit, Controls and Employment Practices.
85. Shareholders' Equity and Dividends declared.
86. Mortgage Reserve.
87. Closing.

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To The Honourable Chairman
and Members of the Royal Commission
on Banking and Finance

The Dominion Mortgage and Investments Association is grateful for the opportunity of presenting this Brief to the Royal Commission. The Association has for membership life insurance, trust and loan companies. Its life insurance company members are included in the membership of the Canadian Life Insurance Officers Association and its member trust companies are included in that of the Trust Companies Association of Canada. Each of these two Associations is submitting a Brief to the Royal Commission on behalf of its membership. The present Brief is being presented by this Association on behalf of only its member loan companies.

1. The Dominion Mortgage and Investments Association is a voluntary organization composed of 25 life insurance companies, 7 loan companies, 1 savings bank and 13 trust companies. It was organized in 1916 and since then has provided the focal point to discuss and deal with questions of common interest to these companies particularly in regard to matters related to their investments. While it does not include all such companies in Canada, its membership represents the major portion of the business in Canada. The Association operates by way of making recommendations to member companies, each company being free to accept or reject them. In the words of its Constitution the



1 objects of the Association are -

2 "(1) To assist its members in the fulfilment
3 of the essential functions they perform
4 in receiving, safeguarding and investing
5 the savings of the public.

6 "(2) To maintain sound and equitable debtor
7 and creditor relationships in connection
8 with the loaning of the funds entrusted
9 to such companies by the public.

10 "(3) To co-operate with other associations
11 and with governments in matters affect-
12 ing the investments of member companies.

13 "(4) To discuss subjects of business importance
14 and of common interest which may arise
15 from time to time and to make recom-
16 mendations in connection therewith.

17 "(5) To gather and distribute information of
18 general interest to its members.

19 "(6) To promote respect for contractual obli-
20 gations and for the principles of thrift
21 and saving and to assist in protecting
22 investments of member companies against
23 default or damage, and generally to
24 assist in problems affecting investments.

25 "(7) To study and discuss matters of taxation
26 affecting member companies, including the
27 taxation of real estate, and to make
28 recommendations in connection therewith.

29 "Provided always and it is hereby
30 declared that this Association is not



1 formed for the purpose of affecting rates
2 of interest nor to enable its members to
3 establish combines of any kind nor to
4 interfere in any way with free and un-
5 trammelled competition among its members
6 either in lending money, purchasing
7 securities, or in the terms and rates of
8 interest in connection therewith, or
9 otherwise."

10 2. By loan companies is meant those companies
11 whose principal business is the lending of money on
12 the security of real estate by way of mortgages in-
13 cluding hypothecs and the investment in or purchase of
14 such mortgages.

15 The Capital Market and Member Loan Companies

16 3. The participation of member loan companies in
17 the capital market is primarily that of directing the
18 funds of the saving public into first mortgages secured
19 by real estate in Canada. While they do direct a
20 portion of these funds into securities such as bonds,
21 debentures and stocks, they do so only as incidental
22 to their mortgage business for purposes of diversi-
23 fication, liquidity and because of the need of a haven
24 for their funds pending disbursement into mortgage
25 loans. Of their total assets at the end of 1960,
26 mortgage loans accounted for 79.4 per cent. Except
27 during and arising from the war years, mortgage hold-
28 ings have not been less than 72 per cent. In 1928 this
29 was 77.4 per cent.
30



4. The volume and tempo of the activities of member loan companies depend on the demand for mortgage loans and the supply of funds which the loan companies can attract. Both of these are affected by the fiscal, monetary and financial policies being pursued at any particular time by the Authorities. Under conditions of slackened demand, lenders seeking mortgage loans will endeavour to activate that demand by decreasing the rate of interest at which they are prepared to make mortgage loans. Because mortgage lending is a highly competitive business, loan companies if they want to make mortgage loans in volume, will have to be prepared to make loans at competitive rates for the types of mortgage loan they desire. Under conditions of excessive demand, the rate of interest which can be asked for mortgage loans will increase to the point where it will tend to discourage would-be borrowers. Likewise on the supply side, in order to attract funds in competition with other gatherers of savings, loan companies increase or decrease the rate of interest they are prepared to pay on their borrowings to a rate competitive with other avenues of comparable investment open to the public. There are limits beyond which member loan companies cannot afford to go in increasing their borrowing rate and in decreasing their lending rate as they must obtain sufficient margin to enable them to operate profitably. Because member loan companies are both borrowers and lenders, their operations may be said to be doubly sensitive to the policies being pursued by the Authorities. While this



1 is so, the responsiveness of member loan companies to
2 such policies tends to be delayed because of the medium
3 and long term nature of the mortgage business and be-
4 cause of the customary time-lag between approval of
5 mortgage loans and the full disbursement of them by the
6 loan company. Under conditions where funds available to
7 them are in short supply relative to the demand on them
8 for mortgage loans, member loan companies are unable
9 to fill that demand. To the extent that they have
10 funds or can expect to obtain them, member loan
11 companies will make those mortgage loans which they
12 consider to be best for their purpose.

13 5. In their every day operations, member loan
14 companies keep abreast of developments and trends in
15 the financial markets in order that they may gauge as
16 far as may be possible the likely course of events in
17 their own business of making mortgage loans. They are
18 able to do this because of their contacts with bankers,
19 investment dealers, economists and students of affairs
20 whose opinions may be helpful, as well as with build-
21 ers, promoters, land developers and real estate men
22 generally. Their directors are men who are successful
23 in their own line of business and who have the op-
24 portunity of keeping in touch with business and
25 financial conditions. Further, there are available
26 many financial and trade publications as well as in-
27 vestment services from which management endeavours to
28 form educated opinions on trends and likely develop-
29 ments. Senior officers are men of experience and
30 mature judgment. Apart from matters connected with



1 the sale of savings bonds, there have been no recent
2 contacts with the Bank of Canada on the part of member
3 loan companies as a group. Discussions with successive
4 Ministers of Finance have been limited to matters
5 having to do with amendments to legislation pertaining
6 to the corporate powers of loan companies and matters
7 related to the application to them of taxation statutes.

8 6. The Bank of Canada is charged with highly
9 responsible duties in the exercise of which it is
10 called upon to form judgments and take action thereon
11 and in respect of which there will no doubt always be
12 considerable lack of unanimity in financial and business
13 circles, if not in federal, provincial and municipal
14 government circles. Frequent and complete statements
15 by the Bank could be useful to business and finance in
16 certain circumstances and at certain times and could
17 assist in obtaining greater public co-operation in
18 achieving the fulfilment of those policies. Under
19 other circumstances and at other times, such statements
20 could be embarrassing in the sense that they could
21 impede such fulfilment. Member loan companies believe
22 that it would be unwise to give the Bank or its
23 Governor specific directions. Rather, they believe,
24 that the matter should be left to the judgment of the
25 Governor with the observation that there are times and
26 circumstances when frequent and complete information
27 could be helpful and should be issued by the Bank.

28 7. Member loan companies have as directors men
29 of standing in the business and financial community.
30 They come from many walks of life. Among them are



1 investment dealers, insurance company executives,
2 bankers, lawyers, industrialists and merchants. One
3 company is a subsidiary of a trust company and each
4 of three has a trust company subsidiary. One company
5 is controlled in England and one in France. In the case
6 of one loan company, the friendly relations which have
7 existed for a great many years with one particular bank
8 continue and that bank has a 16 per cent interest in
9 the shares of that company, this company meanwhile being
10 a substantial customer of a number of banks. The shares
11 of member loan companies are widely held and among
12 shareholders are banks, insurance companies, pension
13 funds, sundry institutions and individuals. Member
14 loan companies invest in stocks, including those of
15 banks, on their investment merit as do banks in the
16 stocks of member loan companies. In no case do the
17 holdings of shares by a member loan company or a bank
18 constitute control or near control of the other as such
19 holdings are small in relation to the total number of
20 shares outstanding.

21 8. Member loan companies have no relationship
22 with dealers in securities other than that of client.
23 Other than the mutual reference of would-be mortgage
24 borrowers to each other, there is no contact between
25 member loan companies and the Industrial Development
26 Bank.

27 9. Member loan companies are not large investors
28 in securities and their participation is for the most
29 part in government securities. In their experience, the
30 securities markets in Canada have worked well.

10. The Canadian capital market is discussed at



length in the Study "The Role of The Trust and Loan Companies in the Canadian Economy" prepared by The University of Western Ontario School of Business Administration for The Trust Companies Association of Canada, which Association is appending it to the Brief it is submitting to your Commission. Four loan companies, members of this Association, joined with The Trust Companies Association in having the Study prepared. As participants in the capital market, member loan companies operate within a framework of legislative regulations. Most of these regulations are of long standing and seem to have had their origin in the desire of legislators to protect depositors and debenture holders. Among these are the limit of borrowing powers, the limitation of the amount of mortgage loans to the value of property as security, the limitations as to the permitted kinds of investments and loans which may be made and the quantitative and qualitative restrictions applicable to certain types of investments and loans. Desirable as these may be for the protection of depositors and debenture holders, their effect is to confine loan company operations to certain areas of the capital market and, within those areas, to limit their participation. Member loan companies exist for the purpose of making mortgage loans and, generally, they desire to continue to operate to the end that the greater portion of their assets will be mortgage loans. Except for the $12\frac{1}{2}$ times unimpaired paid in capital and reserve limitation on their borrowing powers, member loan companies do not regard other



1 restrictions as being onerous under present conditions.

2 The addition of more restrictions on member loan
3 companies, however, would make their operations more
4 difficult and might well curtail them. The imposition
5 of such controls, for example, as regulations calling
6 for ratios of specified assets to total assets or as to
7 minimum and maximum terms of amortization would intro-
8 duce additional impediments to the elasticity of member
9 loan company participation in the capital market.

10 11. The participation of governments and their
11 agencies in the mortgage sector of the capital market
12 at artificial interest rates and on terms more favour-
13 able as to size of loans, length of amortization and
14 prepayment privileges than member loan companies can
15 grant has had the effect of shrinking the field in
16 which member loan companies can operate and has cur-
17 tailed in the mortgage sector of the capital market the
18 discipline of interest rates set by the operation of a
19 free market of supply and demand. Not only does this
20 apply to the field of residential mortgages but also to
21 other fields of lending where, for social and other
22 reasons, government agencies lend or private agencies
23 lend under government guarantee at artificial rates of
24 interest, or where legislation specifies a maximum rate.

25 12. The proposal that insured mortgage loans be
26 made available for the financing of the existing house
27 would add another element of rigidity in the mortgage
28 sector of the capital market. Additional consideration
29 is given to this proposal commencing with Paragraph 70.

The Money Supply and Loan Companies

13. The Study prepared by the University of Western Ontario School of Business Administration previously referred to deals at length with the acceptance of deposits by loan and trust companies and the relation of that activity to the control of the money supply by the central bank in the implementation of monetary policy through the rise and fall of interest rates. Elsewhere in this submission, it is demonstrated that member loan companies do not escape the discipline of fluctuating interest rates. They are very much susceptible to it, once as borrowers and once as lenders. It follows that it should not be necessary to require member loan companies to maintain a cash reserve with the central bank inasmuch as such companies are already subject to the impact of monetary policy in the same way as any other borrower or lender.

14. Member loan companies are depositors with the banks in the same way as any other depositor. Whether the deposit arises from the loan company's earnings or the repayment to it of mortgage loans or the sale or maturity of investments on the one hand or, on the other hand, whether it arises from borrowing by way of debentures or borrowing by way of acceptance of deposits does not alter the situation that the money is in the banking system as a deposit liability and that, in respect of it, the particular bank concerned is required to maintain a cash reserve (8 per cent at the present time) with the central bank. Likewise, the impact on



1 the particular bank concerned and on the banking system
2 of the withdrawal from deposit by a member loan company
3 of its own money is no different than the impact of
4 withdrawal for the purpose of giving back the money to
5 its depositor or honouring a cheque drawn on it by the
6 depositor -- either way the particular bank loses the
7 deposit and recovers the cash reserve it held in the
8 central bank. Under the present definition, deposits
9 with loan companies and other intermediaries are not
10 included in the definition of "money supply" and member
11 loan companies consider that, as pointed out above,
12 such inclusion is unnecessary for the implementation of
13 monetary policy as determined by the central bank.

14 15. It seems to member loan companies that to
15 require them to maintain a reserve with the central
16 bank in respect of a deposit a loan company accepts
17 and also to require the bank into which the loan company
18 deposits the deposit it accepted would be a type of
19 duplication not necessary to the control of the money
20 supply. Because all money must eventually flow into
21 the banking system, that system is a closed circuit in
22 which loan companies and other intermediaries do not
23 participate. To require loan companies and other
24 intermediaries to become subject to the limitation of
25 the maintenance of a cash reserve with the central bank
26 imposed on the occupants of this closed circuit would,
27 in effect, grant to the banks an advantage to which
28 member loan companies believe the banks are not en-
29 titled. It is submitted that, if loan companies and
30 other intermediaries are to be required to maintain a



1 cash reserve with the central bank, they should be
2 given the attributes of a bank in all respects.

3 16. The central bank controls the money supply
4 by the action it takes to regulate the cash reserves
5 of the banks. At the present time the minimum reserve
6 required is 8 per cent of Canadian deposit liabilities
7 of the chartered banks. Thus, a \$100 cash reserve can
8 sustain \$1,250 of deposit liabilities represented by the
9 reserve and \$1,150 of loans and investments. Any
10 action by the central bank resulting in an increase in
11 Canadian deposit liabilities puts the banking system
12 in a position to use 92 per cent of the amount of such
13 deposits. Because all money must flow into the bank-
14 ing system, the banks are the beneficiaries of the
15 central bank's action. Even where the seller of bonds
16 to the central bank happens to be a depositor with a
17 loan company, the proceeds of the sale flow into the
18 banking system. While cash reserves are non-interest
19 bearing, they cannot be considered to be in the nature
20 of a burden or penalty on the banks because, through
21 no action of their own, the banks have been placed in
22 funds to make loans or investments to the extent of $11\frac{1}{2}$
23 times such reserves. In a sense it can be said that
24 the banks are the fortuitous recipients of a source of
25 loanable and investable funds. Inasmuch as the long
26 term trend of money supply is upward, member loan
27 companies do not agree that the fact that the 8 per cent
28 is non-revenue producing in the hands of the banks is
29 inequitable to the banks. Rather they feel that the
30 banks are in the fortunate position of having guaranteed



1 to them the use of 92 per cent of this steadily in-
2 creasing money supply.

3 17. Member loan companies take the same position
4 as above with respect to being required to maintain cash
5 reserves with banks. These companies maintain large
6 balances with the banks as part of their operational
7 needs. Normally these balances are non-interest earn-
8 ing. To add to these balances an added amount locked-
9 in with the banks at no interest would be tantamount to
10 making a gift to the banks of the interest earned on
11 such additional balances.

12 18. There seems to be some difference of opinion
13 among economists and students of central banking
14 techniques as to the merits and desirability, or other-
15 wise, of attempting to control money supply through
16 the addition of reserve requirements applicable to
17 intermediary deposit-receiving institutions. Whatever
18 may be the correct theoretical position in this matter,
19 member loan companies are of the view that their
20 deposit-receiving activities can make only very little
21 difference.

22 Loan Companies in Canada

23 Special Items Reviewed

24 19. The limited borrowing powers of member loan
25 companies at times hamper their activities. This limit
26 is now $12\frac{1}{2}$ times unimpaired paid in capital and
27 reserve. They believe that it should be raised to 15
28 times.

29 20. Member loan companies see no need for deposit
30 insurance.



21. Member loan companies are opposed to the extension of the National Housing Act for the financing of existing houses. They have not participated in the operation of the Act because of the low rate of interest, the long term and attractive prepayment privileges and the additional paper work. Such extension would curtail their field of operation still further.

22. Most mortgage loans by member loan companies are made for a term of 5 years. This is because of the prepayment provisions granted to individuals by the Interest Act. Under these provisions the mortgagor is free to prepay after 5 years while the lender is locked in for the term of the contract.

23. For the present, member loan companies have only a mild, theoretical interest in the development of a secondary mortgage market.

24. The setting up of reserves for losses on mortgages is presently allowed under the Income Tax Act at $\frac{1}{4}$ of 1 per cent per year to a maximum of 3 per cent. Since 1955 when this amendment was made to the Act, there has been a large increase in mortgage portfolios and a reserve of this amount is considered to be too small in the light of the experience in the period 1929 to 1948. Member loan companies believe that it should be made 6 per cent with an annual deduction of $\frac{1}{2}$ of 1 per cent per year.

Historical

25. Loan companies originated as building and



companies are opposed to the

operation of the National Housing Act for the financing

ing of existing houses. They have not participated

in the operation of the Act because of the low rate of

interest, the long term and attractive prepayment

privileges and the additional work. Such con-

ditions would curtail their field of operation still

further.

22. Most mortgage loans by member loan companies

are made for a term of 5 years. This is because of the

improvement provisions granted to individuals by the

Interest Act. Under these provisions the mortgage is

free to prepay after 5 years while the interest is locked

in for the term of the contract.

23. For the present member loan companies have

only a very theoretical interest in the development

of a secondary mortgage market.

24. The setting up of reserves for losses on

mortgages is presently allowed under the income tax

Act up to 1 per cent per year to a maximum of 3 per

cent. Since 1937 when this amendment was made to the

Act, there has been a large increase in mortgage volume

followed and a reserve of some amount is considered to

be too small in the light of the experience in the

period 1929 to 1933. Member loan companies in 1934

that it should be made 1 per cent with an annual re-

vision of 1/2 of 1 per cent per year.



1 loan societies about 1845. Borrowers were required to
2 become members and as a condition of the loan were re-
3 quired to subscribe for stock in the society. Two types
4 were issued, terminating and permanent. Upon repayment
5 of a loan, the terminating stock was retired but the
6 permanent stock remained. Over the years, this method
7 of obtaining loanable funds and capital gradually
8 changed. Some societies began to take deposits and this
9 was authorized by legislation about 1865. Societies
10 began to borrow by way of debentures and gradually what
11 are now known as loan companies were evolved. Gradually
12 through amalgamations, liquidations and acquisition of
13 trust company powers, the number of them has dwindled
14 until only relatively few are operating. In 1900 there
15 were 83 loan companies operating in Ontario, in 1910
16 the number was 54 and in 1927 it was 27. By the end of
17 1954 only 7 remained in operation in Ontario. Loan
18 companies registered in and supervised by Ontario under
19 the Loan and Trust Corporations Act and those supervised
20 by the Federal Superintendent of Insurance numbered
21 only 10 at the end of 1954. In the last few years,
22 some new companies have been incorporated and the 1954
23 number of 10 had increased to 13 at the end of 1960.

24 These loan companies are listed in Appendix 1 and those
25 who are members of this Association are so identified.

26 26. At this late date, it is not possible to as-
27 certain what conditions at the time led to mergers of
28 particular companies or their ceasing to do business
29 or the terms of mergers and acquisitions. However,
30 Appendix 2 lists the names of loan companies which



UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

11

Form 100-10 (Rev. 1-1-60)

1. The purpose of this report is to provide a summary of the results of the study conducted by the Bureau of Land Management, Department of the Interior, in cooperation with the National Bureau of Economic Research, Inc., on the economic impact of the public lands program. The study was conducted from 1954 to 1959 and was the result of a contract awarded to the National Bureau of Economic Research, Inc., by the Bureau of Land Management, Department of the Interior, in 1954.

2. The study was conducted in two phases. The first phase was a survey of the public lands program and its economic impact. The second phase was a study of the economic impact of the public lands program on the economy of the United States.

3. The results of the study are presented in this report. The first part of the report is a summary of the public lands program and its economic impact. The second part of the report is a study of the economic impact of the public lands program on the economy of the United States.

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1 have ceased to function since 1921. While this list is
2 not complete, it is believed that it is representative.

3 Supervision

4 27. There are companies engaged in the mortgage
5 loan business which are not supervised by the Federal
6 Superintendent of Insurance or registered and super-
7 vised under the Loan and Trust Corporations Act of
8 Ontario. Such companies are incorporated by the
9 Provinces under the provisions of legislation applicable
10 to loan companies generally, by special Act pertaining
11 to particular companies, by charter or letters patent
12 incorporating what amounts to private companies or
13 under the provisions of legislation applicable to
14 companies generally or under legislation governing in-
15 vestment contract companies. These companies may or
16 may not be subject to limitations as to type of bor-
17 rowing, nature of and restrictions on permissible in-
18 vestments and other conditions of operation. The
19 number of such companies, the extent of their business
20 and the restrictions, if any, under which they operate
21 are unknown to us. We are not aware of any officially
22 published information on the operations of loan
23 companies other than the report of the Federal Super-
24 intendent of Insurance and that of the Registrar of
25 Loan and Trust Corporations for Ontario. Appendix 3
26 summarizes the legislation governing the incorporation
27 of loan companies.

28 28. The companies listed in Appendix 1 are sub-
29 ject to the supervision and inspection of the Federal
30



1 Superintendent of Insurance or of the Registrar of
2 Loan and Trust Corporations for Ontario. This super-
3 vision and inspection are intensive ones for the purpose
4 of ascertaining that their affairs are conducted in ac-
5 cordance with the Loan Companies Act, Canada, the Loan
6 and Trust Corporations Act, Ontario or the Loan Companies
7 Act, Nova Scotia and that their solvencies are main-
8 tained for the protection of the public whose funds have
9 been entrusted to them. The province of Nova Scotia
10 accepts the supervision of the Federal Superintendent
11 of Insurance as adequate protection to it and does not
12 require any supervision by it. The province of Ontario
13 supervises and reserves the right to inspect all
14 companies doing business in the province. In practice,
15 Ontario accepts the inspection of the Federal Super-
16 intendent of Insurance and that of the province of in-
17 corporation where such province carries out inspections.
18 Such provinces as British Columbia, Saskatchewan,
19 Manitoba and Quebec reserve the right to inspect the
20 affairs of loan companies operating within their limits
21 and they have this right. The extent to which loan
22 companies are inspected varies. The closest inspection
23 comes from the province of incorporation or from Ottawa
24 in the case of Federal incorporations, and, in ad-
25 dition, from the province of Ontario in the case of
26 companies doing business there. To all provinces in
27 which a company does business and to Ottawa, in the case
28 of Federal incorporations, an annual return is required
29 to be made. For Ottawa and the province of Ontario, the
30 returns are detailed and voluminous.



1 29. Member loan companies assemble the savings
2 of the public and direct their use to the capital
3 market. To do this, they borrow money from the public
4 by accepting deposits and by selling their debentures.
5 In so doing, they are governed by the provisions of
6 legislation of general or specific application. The
7 funds they assemble are loaned and invested as author-
8 ized by this legislation. The bulk of these funds is
9 placed in mortgages secured by improved real estate
10 because the purpose in life of loan companies is to
11 make or purchase real estate mortgages.

12 As Gatherers of Savings

13 30. In their efforts to attract savings dollars
14 to themselves, member loan companies face the compe-
15 tition of other institutions and organizations which
16 seek to do the same thing. Included are the chartered
17 banks, the trust companies, the credit unions, the in-
18 vestment contract companies, the mutual funds, the
19 bond market and sundry financial companies. Member
20 loan companies gather savings by borrowing from the
21 public. These borrowings take the form of the accept-
22 ance of money on deposit and the issuance of debentures.
23 Member loan companies enjoy the confidence of the
24 public as deposits with them and debentures sold by them
25 have a long record of safety coupled with attractive
26 interest rates and terms. While member loan companies
27 have been successful in attracting a substantial volume
28 of savings, they have not attracted a large proportion
29 of the total of available saving. Competition is keen
30



and there is no element of capital profit to attract the public, as there is in the case of some of their competitors. At the end of 1960, the debenture liability of those loan companies listed in Appendix 1 was \$377 million and their deposit liability was \$137 million for an aggregate of \$514 million. The following tabulation sets out the amounts of liabilities for debentures and deposits at intervals for some years back:-

| <u>(\$Million)</u> | <u>Debentures</u> | <u>Deposits</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|--------------|
| 1960 | 377 | 137 | 514 |
| 1959 | 334 | 127 | 461 |
| 1958 | 270 | 141 | 411 |
| 1957 | 246 | 122 | 368 |
| 1956 | 220 | 119 | 339 |
| 1951 | 138 | 88 | 226 |
| 1946 | 101 | 65 | 166 |
| 1941 | 101 | 36 | 137 |
| 1939 | 105 | 36 | 141 |
| 1934 | 117 | 32 | 149 |
| 1931 | 121 | 43 | 164 |

Apart from the equity of the shareholders, the ability of loan companies to make investments, whether by way of mortgage or otherwise depends upon their ability to attract funds from the public. Appendix 4 summarizes the balance sheet in aggregate of those loan companies who are registered to do business in Ontario. While this is a smaller sample than the companies listed in Appendix 1, in that it omits those companies supervised



1 by the Federal superintendent and who do not do busi-
2 ness in Ontario, all the important companies in point
3 of assets and liabilities are registered in Ontario and
4 are reflected in the balance sheet set out in Appendix
5 4 which can be said to be truly representative of the
6 business.

7 31. At times some loan companies have been
8 hampered by the statutory limit on their borrowing
9 powers. Since 1958, Federal loan companies have been
10 limited in the amount of their borrowings (less cash
11 on hand and on deposit with chartered banks) to $12\frac{1}{2}$
12 times unimpaired paid up capital and reserve. For the
13 period 1948 to 1958 this was 10 times and from 1927 to
14 1948 it was 6 times. Prior to that time it was 4 times.
15 Ontario loan companies and those registered to do
16 business there are limited to 4 times but the Lieu-
17 tenant Governor in Council, on such terms and conditions
18 as he may prescribe, may increase the amount of borrow-
19 ing of an applicant loan company to an amount not ex-
20 ceeding $12\frac{1}{2}$ times. It follows that the Ontario limit
21 may vary as between individual loan companies. In
22 recent years the Ontario maximum limit has been in line
23 with that applicable to Federal loan companies. Our
24 member loan companies recognize that a statutory limit
25 on borrowing has validity for the protection of
26 depositors and debenture holders. With increasing
27 population and increased volume and accelerated tempo
28 of economic activity, however, they consider that the
29 present limit is too low, preventing them at times
30 from serving the Canadian public in their mortgage



1 loan requirements to a greater extent. With the super-
2 vision and inspection to which they are subject and
3 with the various limitations, prohibitions and quali-
4 fications surrounding their loans and investments,
5 member loan companies believe that a limit of 15 times
6 would be in order and that such a limit would not do
7 violence to the protection of the public.

8 Debenture Liability

9 32. Loan company debentures may be sold "over the
10 counter" by the loan company. Such debentures are not
11 issued at any one time but are issued to clients from
12 day to day through the company's offices or to fill
13 orders received directly or from investment dealers or
14 agents for their clients. The term is usually anywhere
15 from 1 to 5 years and has been as high as 10 years.
16 There is no statutory requirement as to term except
17 that companies registered in Ontario may not issue de-
18 bentures for a shorter term than 1 year. Such de-
19 bentures range upwards in denomination from \$100, this
20 being the minimum denomination permitted to Ontario
21 registered loan companies, and may be issued in multi-
22 ples of \$100 or in odd amounts above \$100 to suit the
23 requirements of the purchaser. Registration may be
24 had for both principal and interest or for principal
25 only or they may be issued to bearer. Debentures sold
26 "over the counter" are non-callable and there is no
27 obligation on the loan company to repurchase them prior
28 to maturity, although some companies will repurchase
29 them on compassionate grounds. In some cases, a
30



1 company may follow a policy of redeeming the debentures
2 held by a deceased holder. Usually there is a limited
3 after-market for debentures through one or two invest-
4 ment dealers to whom the company can refer holders who
5 wish to sell before maturity. Some loan companies are
6 prepared to issue these debentures in cumulative form,
7 that is, with the interest payable by coupon or cheque
8 at maturity only. The rate of interest varies with the
9 length of term and with the general level of interest
10 rates for comparable securities. Historically the rate
11 has been more than the yield on government bonds of
12 comparable term by about one-half of one percent. At
13 the present time, the range varies between 4 per cent
14 for 1 year debentures to 5 per cent for 5 year de-
15 bentures. It is customary for debentures sold "over
16 the counter" to be sold at par. The outstanding charac-
17 teristic of such debentures is flexibility. Within
18 the broad limits of a loan company's policy relative to
19 length of term and rate of interest, the requirements
20 of the investor can be met readily.

21 33. All loan companies do not follow the practice
22 described in paragraph 32. Some follow the practice of
23 selling issues of debentures to underwriters who retail
24 the same to the public. Of necessity, the aggregate
25 amount of an issue, the interest rate, term, callability,
26 denominations, registration provisions, price at issue,
27 etc. must be determined in advance of the underwriting
28 and described in the indenture and prospectus covering
29 the issue. Usually, part of such an issue takes the
30 form of maturities longer than 1 to 5 years, possibly



1 as long as 20 years and may be made callable at times
2 and on terms set out in the indenture.

3 34. Both types of debentures described in para-
4 graphs 32 and 33 are general obligations of the loan
5 company. There is no specific pledge of assets in
6 practice. While this is so, there would seem to be no
7 statutory prohibition against the specific pledge of
8 assets. In fact the legislation applicable to loan
9 companies registered in Ontario contemplates that this
10 can be done. Parliament has recently given incorpo-
11 ration to a loan company with power to pledge assets as
12 specific security for the types of debentures the
13 company proposes to issue.

14 35. At least one loan company has borrowed by the
15 sale of short term notes at times, depending upon
16 conditions in the money market and the use to which the
17 funds so obtained are proposed to be put. While such
18 notes are not debentures in the recognized sense,
19 there is little practical difference and so they can
20 be considered as debentures in the broad sense.

21 36. Debentures and other securities of loan
22 companies are well recognized as safe investments by
23 the public and in most provinces are investments per-
24 mitted to trust funds where the loan company is
25 "approved" by the authorities. Not only are such de-
26 bentures well recognized by individuals but are in-
27 vested in from time to time by corporations and insti-
28 tutions where safety plus an attractive return is re-
29 quired or desired.



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bentures well recognized by individuals but are in-
vested in large amounts by corporations and insur-
ance companies where they plan an investment in re-

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29



1 Deposit Liability

2 37. All but three loan companies registered to
3 do business in Ontario at the end of 1960 borrow by the
4 acceptance of money on deposit. Generally speaking,
5 this is done in two ways at the present time.

6 38. Ordinary deposits have the following charac-
7 teristics in varying degrees depending upon the parti-
8 cular loan company. They are evidenced by a pass-book
9 in which are recorded the deposits, withdrawals and
10 balances. They bear interest at the rate or rates
11 established by the loan company from time to time.
12 This interest may be calculated on the minimum quarter-
13 ly or half-yearly balance as agreed upon. The rate may
14 vary over a term of years but once established usually
15 remains the same for a considerable period. At the
16 present time the rate generally in effect ranges from
17 3 per cent to $3\frac{1}{2}$ per cent depending on the company and
18 the privileges or restrictions pertaining to the
19 deposit. Full chequing privileges are granted subject
20 to the statutory provision that the company may require
21 thirty days' notice of withdrawal. In practice, how-
22 ever, this statutory provision is not operative. Some
23 companies make no charge for cheques, others allow one
24 free cheque per month for every \$100 of balance on
25 deposit and charge 10 cents per cheque for others.
26 Still other companies may allow a "reasonable" number
27 of cheques free of charge. Some companies limit the
28 amount of deposit balance to say \$25,000 or \$50,000
29 and some may place no limit, while other companies may
30 have a minimum deposit amount which they will accept.



39. Special savings accounts, called so for want of a better name, may also be evidenced by a pass-book. Such deposits have no chequing privilege. Withdrawals must be made in person and usually require the presentation of the pass-book. The company can require thirty days' notice of withdrawal. Interest is allowed on the minimum monthly balance at a rate somewhat higher than on ordinary deposits, the present rate being 4 per cent and the maximum balance permitted tends to be lower. Deposits may also be accepted in large amounts subject to negotiation as to terms and conditions. Because there is keen competition for the savings of the public not only among savings institutions but among the loan companies themselves, any number of combinations of terms and conditions may be adopted in the acceptance of money on deposit by a loan company in order to attract to itself the volume of money which it desires to obtain.

Liquidity Provision

40. Loan companies with Federal charter and those registered in Ontario are required to maintain cash, deposits with chartered banks, federal and provincial securities, those of certain types of municipalities and demand loans secured by the types of securities named to an amount equal to 20 per cent of deposit liabilities. Some of the other provinces have similar but not identical requirements, British Columbia requiring 25 per cent. In practice these percentages are minima as loan companies maintain substantially

39.

Special savings accounts, called so for want of a better name, may also be evidenced by a pass-book. Such deposits have no checking facilities. Withdrawals must be made in person and usually require the presentation of the pass-book. The company can require thirty days' notice of withdrawal. Interest is allowed on the minimum monthly balance at a rate somewhat higher than on ordinary deposits, the interest rate being 4 per cent and the minimum balance permitted tends to be lower. Deposits may also be accepted in large amounts subject to negotiation as to terms and conditions. Because there is keen competition for the savings of the public not only among savings institutions but among the loan companies themselves, any number of combinations of terms and conditions may be adopted in the acceptance of money on deposit by a loan company in order to attract to itself the volume of money which it desires to obtain.

Indulgent Provision

40. Loan companies with Federal charter and those registered in Ontario are required to maintain cash deposits with chartered banks, federal and provincial securities, bonds of certain types of municipalities and demand loans secured by the issue of securities issued to an amount equal to 50 per cent of deposit liabilities. Some of the latter provisions have similar but not identical requirements. British Columbia is charging 25 per cent. In practice these provisions are similar as loan companies maintain substantially



higher percentages. For the ten year period ending with 1960 the average amount of cash and securities held at year end was 49.2 per cent of the average deposit liability at year end.

| | <u>Per Cent</u> |
|---|-----------------|
| Cash on Hand and in Banks | 8.0 |
| Federal and Provincial Securities | 38.0 |
| Canadian City and Ontario Municipal Securities | 2.9 |
| Demand Loans | .3 |
| | <hr/> |
| | 49.2 |
| | <hr/> |

The amount of deposit liability and of cash and other liquid assets at the end of each year 1951 to 1960 are set out in Appendix 5. Loan companies operating in Ontario are required to report to the Registrar of Loan and Trust Corporations for that province every six months on their liquidity provision. The excess of liquidity provision over the statutory requirement maintained by an individual loan company results from the combination of a number of factors. First, the experience gained over a long period of time on the flow of deposits, in and out, of the particular company. Second, the net inflow of the proceeds of debenture sales, being term money. Third, the inflow of mortgage principal repayments. Fourth, the excess of revenues over expenditures. Fifth, the expected pay-out on mortgage loans. In this connection, mortgage loans approved are not paid out at once in the



majority of cases, considerable time-lags between the date of approval and full pay-out of the amount of the loan being customary. This time-lag arises from a variety of causes. Among these are completion loans requiring pay-out only upon completed construction; pay-outs as construction progresses; forward commitments for pay-out at future date or dates; and delays in the completion of legal requirements related to the mortgages to be taken as security. Thus, a loan company requires to accumulate the funds necessary to enable it to honour its commitments as they arise and these accumulations are invested in readily cashable securities to earn income. There are also periods when the demand for mortgage loans of the types the company prefers is lacking or sluggish or insufficient to take up the funds the company has available, and these funds are similarly invested for income pending outlet into mortgage loans. In the light of these factors as they apply to its own operations, a loan company will maintain in cash and bank balances and in securities readily cashable such over-all amount as best suits its own needs and particular circumstances.

41. By way of liquidity additional to that already described, loan companies generally have standby arrangements with a bank or banks whereunder bank credit can be available to them on terms mutually satisfactory.

42. Further, Parliament has provided institutional mortgage lenders with a means of obtaining additional liquidity. By its Act of incorporation, Central



majority of cases, considerable time-lag between the
date of approval and full payment of the amount of the
variety of cases. Among these are completion of
pay-ables as construction progresses; forward commit-
ments for pay-able at future date of delivery and delays
in the completion of legal requirements related to the
mortgages to be taken as security. Thus, a loan company
requires to accumulate the funds necessary to enable
it to honor the commitments as they arise and those
accumulations are invested in readily cashable securities
to earn income. There are also periods when the demand
for mortgage loans of the types the company programs is
looking on through an institution to take to the
funds the company has available, and these funds are
similarly invested for income pending outflow into mort-
gage loans. In the light of these factors an agency
apply to its own operations, a loan company will main-
tain in cash and bank balances and its securities readily
available such overall amount as will enable it to
meet and particular circumstances.
By way of illustration, and subject to that and
newly developed loan companies generally have estab-
lished arrangements with a bank or banks where money bank
credit can be available to them on terms mutually
satisfactory.
Further, the bank has advanced loans to the
in mortgage loans with a view of obtaining additional
of liquidity. In the Act of Incorporation, General



1 Mortgage and Housing Corporation is authorized, in the
2 case of loan companies, to buy their debentures, to
3 purchase mortgages owned by such companies and to lend
4 on the security of such mortgages. Other than provid-
5 ing for an agreement calling for the exchange of data
6 relating to mortgage lending between the Corporation
7 and the lender, the legislation is silent on such
8 matters as terms and conditions of loans from the
9 Corporation or prices and other terms of purchase of
10 debentures and mortgages. This legislation makes
11 possible additional mortgage funds and enables the
12 Corporation to act as "banker of last resort" to loan
13 companies requiring funds to improve their liquid
14 position. The legislation is permissive and whether
15 or not the Corporation is prepared to exercise these
16 powers lies with the Corporation. In discussions which
17 took place between officers of the Corporation and
18 representatives of the Association in 1949, the
19 companies suggested the possibility of the Corporation
20 entering into an "as, if and when" agreement for stand-
21 by loans of "last resort". It was the view of the
22 Corporation that it could not commit itself in advance
23 to exercise these powers generally or in any given sets
24 of circumstances nor could it anticipate possible terms
25 and conditions under which it would act.

26 Deposits are "small" saving

27 43. Deposits with loan companies are for the most
28 part by far chequing accounts as it was only in 1959
29 that non-chequing deposit accounts began to be
30



1 accepted. Taking as a sample six loan companies
2 registered in Ontario with \$128 million of deposit
3 liability, only \$8 million were of the non-chequing
4 variety at the end of 1960. While precise information
5 is not available, it is estimated that individuals ac-
6 count for about 98 per cent of the number of deposit
7 accounts and for about 85 per cent of the dollar amount
8 of such deposits, as at October 31, 1961.

9 Deposit Insurance

10 44. There is no system of deposit insurance in
11 Canada. Member loan companies believe that there is
12 no need for such insurance. Depositors with loan
13 companies have been well served by them and the pro-
14 visions of legislation under which member loan companies
15 operate have proven to be adequate for the protection
16 of depositors. Because loan companies enjoy the
17 confidence of the public (and have merited that confi-
18 dence), the establishment of a system of deposit in-
19 surance would not cause the public to increase the number
20 or amount of their deposits with loan companies,
21 particularly if such insurance were available to other
22 types of savings-taking institutions. Under such cir-
23 cumstance, there can be no particular benefit accruing
24 to loan companies from deposit insurance and its cost
25 and attendant regulations and restrictions can only
26 add to the cost of doing business which must ultimately
27 be reflected in a lower rate of return to the depositor
28 or a higher interest charge to the mortgage borrower,
29 or both. If, notwithstanding their view that deposit
30



1 insurance is not needed, a system of such insurance
2 were to be established, it would become necessary for
3 the loan companies to participate in the system in
4 order to keep the deposits now in their hands and to
5 attract new deposits in the face of competition from
6 other savings-taking institutions participating in the
7 system.

8 Clearings and Payment System

9 45. Each loan company accepting chequable deposits
10 makes arrangements with a bank in each clearing area
11 or district to act as its "clearing bank" for that area
12 or district and maintains an account with the "clear-
13 ing branch" of the bank for the area or district. The
14 cheque forms supplied to its depositors by the loan
15 company identify both the clearing bank and its clear-
16 ing branch. The cheques are cleared by the Clearing
17 House in the ordinary way to the clearing bank at its
18 clearing branch. The loan company calls at the clear-
19 ing branch of its clearing bank and takes possession of
20 the cheques drawn on it by its depositors and which
21 cheques have been charged against the account of the
22 loan company by the clearing bank. Where a loan company
23 has a number of branches within a clearing area or
24 district, it is its responsibility to sort and convey
25 the cheques to its branch against which the cheque was
26 drawn. Clearing is a service supplied by the chartered
27 banks which the loan companies receive and for which
28 they pay. The charges for this service have increased
29 substantially in recent years. For example, in Toronto,
30



1 the charge established in November 1950 was \$100 plus
2 1½ cents per cheque plus \$600 annually as non-member
3 clearing house fee. In September, 1954, these became
4 \$100 plus 2½ cents per cheque plus \$300 annually. In
5 November 1958 this was changed to the present charges,
6 namely \$100 plus 5 cents per cheque plus \$300 annually,
7 this \$300 being applicable to Montreal also while for
8 Vancouver it is \$150 and for other clearing centres
9 \$100. Payment is made to the clearing bank which remits
10 the \$300 or its equivalent to the Clearing House.

11
12 As Investors and Lenders

13 46. In paragraph 27, supported by Appendix 3, at-
14 tention was directed to the lack of uniformity in the
15 incorporation of loan companies and in the investment
16 and loan powers granted by incorporating jurisdictions.
17 Attention was also directed to the absence of published
18 official information. Although there are important
19 companies in the mortgage loan field incorporated other-
20 wise, those incorporated by Parliament together with
21 those incorporated by Ontario and those incorporated
22 by Quebec and registered to do business in Ontario do
23 the bulk of the mortgage loan business done by loan
24 companies in Canada. While there are some differences
25 in corporate capacity to invest and lend and in other
26 respects, the investment and loan powers of Federal
27 loan companies and of Ontario registered loan companies
28 can be said to be truly representative of the industry.
29 Accordingly, these have been summarized in Appendix 6.

30 47. Member loan companies generally do not consider



1 their investment and loan powers to be unduly
2 restrictive as there is ample scope, within those re-
3 strictions and limitations, for them to place the funds
4 at their disposal under existing conditions. As in the
5 past and as conditions change, pertinent representations
6 to the supervisory authorities will no doubt, in the
7 future, bring about satisfactory changes as their need
8 becomes apparent.

9 48. Appendices 4 and 4a set out the balance sheet
10 of the loan companies registered in Ontario as at the
11 end of 1960 and each of the nine previous years and some
12 earlier years, both in amount and percentages. It is
13 to be noted that all the loan companies incorporated
14 by Parliament are registered in Ontario so that the
15 data presented include those of Federal companies.
16 The annual reports of the Registrar of Loan and Trust
17 Corporations for Ontario are the source of the inform-
18 ation set out in these appendices.

19 49. It has already been noted that loan companies
20 are primarily mortgage lenders and investors in mort-
21 gages. Such assets as cash and bank balances, holdings
22 of federal and provincial securities, those of certain
23 types of municipalities and demand or collateral loans
24 have already been considered under the liquidity pro-
25 vision aspect, in paragraph 40 and Appendix 5. At the
26 end of 1960, such assets represented 10.8 per cent of
27 total assets while at the end of 1959 it was 12 per
28 cent. Apart from the war years when government bond
29 holdings were relatively high and the early period
30 following the war when mortgage loan demand was just



1 becoming active, changes in this group of assets have
2 no particular significance in the light of the comments
3 made in paragraph 40. Except in exceptional circum-
4 stances, loan companies do not change the direction of
5 the flow of their funds from mortgages into securities.
6 Investment in the latter is either for the purpose of
7 reserve or as a temporary avenue of investment pending
8 the funds being placed in satisfactory mortgages.

9 50. Investment is sometimes made in short term
10 securities (1 year or less) for the temporary employ-
11 ment of funds. The statistics do not disclose that
12 this was the case prior to 1959.

13 51. For the purpose of reserve and in line with
14 what has been said in paragraph 49, loan companies
15 invest in corporation and other bonds to obtain better
16 yield and as a matter of diversification. Related to
17 total assets, such investment is small.

18 52. Attention is directed to the fact that of the
19 investment in common stocks shown in Appendices 4 and
20 4a, a large part represents the investment of loan
21 companies in their own subsidiaries. Of the \$26 million
22 shown as at the end of 1960, \$13 million was stock of
23 or loans to subsidiaries. Thus, stock holdings as an
24 investment was only some 2 per cent of total assets.
25 Three loan companies have a trust company subsidiary
26 while one other loan company has investment subsidi-
27 aries in accordance with its corporate powers.

28 53. It will be appreciated that loan companies
29 are not an important factor in the securities market
30 as their holdings of securities are very small in



1 relation to the total of such securities outstanding.

2 The bulk of the securities purchased by loan companies
3 are mostly short term, that is to say the investment
4 made has only a short term to run before maturity, of
5 the order of 5 years or less. This is not to say that
6 the companies do not buy longer term securities as
7 there are circumstances, such as a specially attractive
8 rate of return or satisfactory convertible features,
9 where the purchase of a medium or longer term security
10 will be in order.

11 54. Investment in head office and branch office
12 premises accounts for only 1.8 per cent of total assets.
13 As a rule such real estate contains considerable space
14 for rent and the companies receive a substantial net
15 income after all charges from their investment. While
16 some of the smaller and newer branches may occupy rented
17 properties, the companies generally own the buildings
18 they occupy. Where the loan company has a trust company
19 subsidiary, the latter occupies the same building.

20 Loan companies, members of this Association, including
21 head offices, operate 64 offices; 6 in British Columbia,
22 9 in Alberta, 5 in Saskatchewan, 3 in Manitoba, 31 in
23 Ontario, 4 in Quebec, 1 in New Brunswick, 4 in Nova
24 Scotia and 1 in Newfoundland. One such loan company,
25 a subsidiary of a trust company, is operated by its
26 parent and so has no office premises. Each loan company
27 endeavours to locate its offices in strategic locations
28 conveniently situated to the public in order to at-
29 tract depositors and to facilitate mortgage payments as
30 well as to attract mortgage borrowers. These offices



1 are located in or close to the financial district of
2 the city or town. In a few metropolitan areas, one or
3 two loan companies may have one or two branch offices
4 located in areas removed from the financial district.
5 For the most part, loan company offices are located in
6 larger and fair-sized cities. Member loan companies
7 have 1,438 employees of which 758 are males. However,
8 899 of these, of which 469 are males, are employed
9 jointly by a loan company and its subsidiary trust
10 company.

11 55. Real estate for sale is a very small item
12 now-a-days. It is made up of sundry properties no
13 longer required for office premise purposes and property
14 acquired as the result of foreclosed mortgage loans.
15 The latter is unusual now because of conditions of
16 relatively prosperous times. In this connection,
17 Federal and Ontario companies are under statutory obli-
18 gation to dispose of foreclosed property within 12 years
19 of acquisition.

20 Mortgage Loans

21 56. It has already been pointed out that loan
22 companies exist for the purpose of making mortgage
23 loans. It follows that the main asset of such companies
24 will be mortgage loans. At the end of 1960, loan/
25 companies held mortgages of a book value of \$471 million
26 which was 79.4 per cent of their total assets. It will
27 be noted from Appendices 4 and 4a that, apart from the
28 war years, mortgages held have increased in amount
29 from year to year and have represented a high
30



1 proportion of total assets, the average for the ten
2 years ended with 1960 being 77.1 per cent and that for
3 the last five years being 78.7 per cent.

4 57. These mortgage loans are secured by first
5 mortgage on improved real estate in Canada. Almost all,
6 about 98.5 per cent, are secured by urban property as
7 opposed to farm property. Included are single dwellings,
8 duplexes, apartments, hotels, motels, filling stations,
9 warehouses, office buildings, manufacturing, processing
10 and assembly plants, shopping centres, commercial blocks,
11 stores, assembly halls, churches, recreational facilities,
12 etc. etc. While there are no statistics to
13 support this, it is estimated that upwards of 70 per
14 cent in dollar value of the mortgages held by member
15 loan companies are secured by residential properties,
16 single and multiple.

17 58. While loan companies do a substantial mortgage
18 business, they having approved gross mortgage loans of
19 \$167 million in 1960, their participation related to
20 the total is a small one. Appendix 8 relates approvals
21 granted by loan companies to the total of such ap-
22 provals and to such approvals less those granted with
23 government funds through Central Mortgage and Housing
24 Corporation.

25
26
27
28
29
30



Percentage - Approvals by Loan Companies

| | <u>To All Approvals</u> | <u>To "Private" Approvals</u> |
|---------|-----------------------------|-----------------------------------|
| 1960 | 13.9 | 16.2 |
| 1959 | 8.1 | 10.8 |
| 1958 | 8.4 | 11.2 |
| 1955 | 7.5 | 7.6 |
| 1952 | 10.0 | 10.9 |
| 1949 | 10.6 | 11.7 |
| Average | 9.0 | 10.4 |

Mortgage loans outstanding held by loan companies, while increasing in amount, from \$179 million at the end of 1928 to \$471 million at the end of 1960 or 163 per cent, have not kept pace with the over-all increase in mortgage debt. In the result, the loan-companies' share has become much smaller. In 1926, loan companies held 29.9 per cent of the estimated total mortgage debt held by institutional lenders. In 1951, this was 14.2 per cent and at the end of 1960, 8.8 per cent, as set out in Appendix 8. If mortgage debt held by government and its agencies be taken into account, the loan companies' share is still smaller. On this basis the loan companies' share was 27.4 per cent in 1926. By 1951, it had dropped to 10.2 per cent and at the end of 1960 to 6.5 per cent. The following tabulation illustrates what has happened.



Percentage Share of Mortgage Loans Outstanding

| | <u>1926</u> | <u>1947</u> | <u>1954</u> | <u>1960</u> |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| <u>Private Sector</u> | | | | |
| Life Companies | 49.3 | 62.9 | 70.6 | 60.5 |
| Loan Companies | 29.9 | 19.4 | 11.8 | 8.8 |
| Trust Companies | 12.1 | 10.3 | 7.7 | 8.2 |
| Other Corporate Lenders | 8.7 | 7.4 | 6.7 | 5.4 |
| Chartered Banks | -- | -- | 3.2 | 17.2 |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| | <u><u>100.0</u></u> | <u><u>100.0</u></u> | <u><u>100.0</u></u> | <u><u>100.0</u></u> |
| <u>Private and Government</u> | | | | |
| Life Companies | 39.2 | 46.9 | 51.8 | 44.9 |
| Loan Companies | 27.4 | 14.5 | 8.7 | 6.5 |
| Trust Companies | 10.2 | 7.7 | 5.7 | 6.1 |
| Other Corporate Lenders | 2.7 | 5.4 | 4.9 | 4.0 |
| Chartered Banks | -- | -- | 2.3 | 12.8 |
| | <u>79.5</u> | <u>74.5</u> | <u>73.4</u> | <u>74.3</u> |
| Government | 20.5 | 25.5 | 26.6 | 25.7 |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| | <u><u>100.0</u></u> | <u><u>100.0</u></u> | <u><u>100.0</u></u> | <u><u>100.0</u></u> |

59. Member loan companies grant mortgage loans on new and existing residential properties and on new and existing properties other than residential. These loans are of the conventional type as differentiated from National Housing Act loans. As will be discussed later,



the loan companies, members of the Association, may be said not to operate under this Act -- in 1961 only one company so operated but it made only five loans. The pattern of member loan company lending has been as follows:

Gross Mortgage Loan Approvals

Percentage to Total Approvals Loan Companies

| Year | 1960 | 1959 | 1957 | 1956 | 1953 | 1951 | 1949 | 1948 | 1947 |
|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| New Residential | 31 | 27 | 38 | 26 | 34 | 19 | 23 | 18 | 18 |
| Existing Residential | <u>32</u> | <u>37</u> | <u>39</u> | <u>41</u> | <u>43</u> | <u>54</u> | <u>43</u> | <u>45</u> | <u>49</u> |
| Total | <u>63</u> | <u>64</u> | <u>77</u> | <u>67</u> | <u>77</u> | <u>73</u> | <u>66</u> | <u>63</u> | <u>67</u> |
| New Other Urban | 24 | 21 | 7 | 17 | 9 | 6 | 13 | 12 | 9 |
| Existing Other Urban | <u>13</u> | <u>14</u> | <u>14</u> | <u>13</u> | <u>11</u> | <u>14</u> | <u>15</u> | <u>20</u> | <u>18</u> |
| Total | <u>37</u> | <u>35</u> | <u>21</u> | <u>30</u> | <u>20</u> | <u>20</u> | <u>28</u> | <u>32</u> | <u>27</u> |
| Farm | - | 1 | 2 | 3 | 3 | 7 | 6 | 5 | 6 |
| All types | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |
| New | 55 | 48 | 45 | 43 | 43 | 25 | 36 | 30 | 27 |
| Existing | 45 | 61 | 53 | 54 | 54 | 68 | 58 | 65 | 67 |
| Farm | - | 1 | 2 | 3 | 3 | 7 | 6 | 5 | 6 |
| | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |

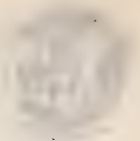
("Other" is everything that is not residential or farm)

For the years under review, a three-fold trend appears to have been established (a) a switch from existing properties to new properties (b) switch from residential properties to "other" properties and (c) a swing away from farm loans. A study of the above tabulation indicates that this trend is not an absolute varies considerably with the period of observation, for example comparing 1960 with 1951



1 with 1957. This is because, in the last analysis, it
2 is the type of demand for loans that governs the pattern
3 of loan company lending. The indicated trend, however,
4 is not surprising when it is remembered that the period
5 under review was one of heavy residential construction
6 and of heavy non-residential construction with its new
7 concepts of shopping centres, plazas, motels, etc. and
8 with the volume of new office buildings, warehouses and
9 industrial and commercial plants in the decentrali-
10 zation and spreading out away from down-town of metro-
11 politan areas to areas further out and to the smaller
12 centres.

13 60. While up to that time member loan companies
14 were substantial farm mortgage lenders, the establish-
15 ment of the Canadian Farm Loan Board in 1929 with the
16 existence of provincial government bodies in the farm
17 loan field created such an added competition by lending
18 at a rate of interest uneconomic to the institutional
19 lender that the latter found it difficult to find farm
20 borrowers of the quality desired in sufficient volume
21 to warrant sustained farm lending. With the poor or
22 absent crops of the thirties and the legislation un-
23 friendly to lenders enacted by the Prairie provinces,
24 particularly Alberta and Saskatchewan, it became im-
25 prudent to make farm loans on a broad scale. With the
26 subsequent enactment of the Farm Loans Improvement Act
27 whereunder the chartered banks were authorized to make
28 farm loans with a pool guarantee by the Federal govern-
29 ment, little demand on loan companies and other insti-
30 tutional lenders has existed for some time. Thus, loan



This is because, in the last analysis, it is the type of demand for loans that governs the pattern of loan company lending. The business found, however, is not surprising when it is remembered that the period under review was one of heavy residential construction and of heavy non-residential construction with the new concepts of shopping centres, cinemas, hotels, etc. and with the volume of new office buildings, warehouses and industrial and commercial plants in the district.

Section and appended out away from downtown of major business areas to areas further out and to the smaller cities.

While up to that time money loan companies were concentrated in mortgage lending, the establishment of the Canadian Farm Loan Board in 1929 with the existence of provincial government bodies in the form of loan funds created such an added competition by forcing at a time of increasing competition to the institutional lender that the latter found it difficult to find loans of money of the quality desired in sufficient volume to warrant sustained farm lending. With the poor on the whole of the situation and the legislation introduced to lenders enticed by the former provisions particularly in the case of Saskatchewan, it became imperative to make farm loans on a more solid basis. With the subsequent enactment of the Farm Loans Insurance Act in 1930 the situation was further improved to such an extent that with a good guarantee by the Federal Government, little chance of loss occurred and other factors of national interest were satisfied in some cases. Thus, the



1 companies make few farm loans as they are unable to meet
2 the competition of the lower rate of interest charged
3 by the Farm Credit Corporation (successor to the Canadian
4 Farm Loan Board) with government funds and by the banks
5 under the pool guarantee of the Federal government.

6 61. As previously indicated member loan companies
7 make virtually no National Housing Act loans. There
8 are three reasons for this. The first is that the rate
9 of interest available under the Act does not provide
10 sufficient margin to a loan company related to the cost
11 of its funds. The second is that the long term loans
12 contemplated by the Act are incompatible with the short
13 term borrowings of the loan companies. In this con-
14 nection, the more advantageous prepayment privileges
15 under the Act are a real deterrent to longer term bor-
16 rowing by loan companies. The third is that the greater
17 amount of paper work involved in making loans under the
18 Act adds to the costs of administration.

19 62. Up until July 1961 when it was changed to
20 two-thirds, loan companies incorporated by Parliament
21 were authorized to make or purchase mortgage loans of
22 a maximum amount of sixty per cent of value. Those
23 incorporated by Ontario were not subject to any pro-
24 vision related to value but in practice they limited
25 themselves pretty much to sixty per cent. By legis-
26 lation enacted in April 1962, they became limited to
27 two-thirds of value. The legislation governing Federal
28 and Ontario loan companies, for all practical purposes,
29 limits the activities of loan companies to first mort-
30 gages. In most cases, mortgage loans by loan companies

... have few firms which are unable to meet
 competition of the lower rate of interest charged
 under the best guarantee of the Federal Government.
 1. As previously indicated member loan companies
 make virtually no National Housing Act loans there
 are three reasons for this. The first is that the rate
 of interest available under the Act does not provide
 sufficient margin to a loan company related to the cost
 of its funds. The second is that the long term loans
 contemplated by the Act are incompatible with the short
 term borrowings of the loan companies. In this con-
 nection, the more advantageous investment privileges
 under the Act are a real deterrent to longer term bor-
 rowing by loan companies. The third is that the greater
 amount of paper work involved in making loans under the
 Act adds to the cost of administration.
 2. Up until July 1961 when it was amended to
 two-thirds, loan companies were prohibited by regulation
 were authorized to raise or purchase mortgage loans of
 a maximum amount of sixty per cent of value. These
 restrictions by statute were not applied to out-of-
 vision related to volume but in practice they limited
 themselves primarily to sixty per cent. By legisla-
 tion enacted in April 1962, they became limited to
 two-thirds of value. The legislation covering Federal
 and National loan companies, for all practical purposes,
 limits the activities of loan companies to first mof-



1 and the mortgages taken as security run for a term of
2 five years but usually call for monthly, quarterly,
3 half-yearly or annual payments on a longer schedule of
4 amortization, the balance owing at the end of the five
5 years being renewed on terms negotiated at the time of
6 renewal. This practice of five year mortgage loans is
7 made necessary by the provisions of the Interest Act
8 and similar legislation in some provinces whereunder an
9 individual is given the right, in the case of a real
10 estate mortgage expressed as being payable for a term
11 longer than five years, to prepay the mortgage after
12 five years upon payment of three months' interest.
13 These provisions have important implications for the
14 lender. Where he makes say a ten year loan he commits
15 himself for the full ten years whereas the borrower who
16 is an individual can exercise his right of prepayment
17 after the fifth year. This means to the lender that the
18 relationship of the return on his investment to the
19 cost of the money loaned can be destroyed by the borrow-
20 er during the term for which it was made. Thus, in
21 periods of dropping interest rates, the lender is
22 deprived of his higher return while he remains liable
23 for the full cost of the money he loaned. In periods
24 of rising interest rates, the borrower does not
25 exercise his right of prepayment and the lender has no
26 opportunity to obtain the higher rate as he is bound
27 by the original term of the mortgage contract. The
28 right of prepayment referred to does not extend to
29 corporate borrowers and consequently loans are made to
30 them for a term longer than five years where such longer



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 estate mortgage expressed as being payable for a term
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 five years upon payment of three months' interest.
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 exercise his right of prepayment and the lender has no
 opportunity to obtain the higher rate as he is bound
 by the original term of the mortgage contract. The
 right of prepayment referred to does not extend to
 corporate borrowers and consequently loans are made to
 them for a term longer than five years where such longer



1 term can be supported by the nature of the loan.

2 63. The amount of a mortgage loan depends primarily
3 on the concept of lending value. For each property
4 offered as security for a mortgage loan, the lender
5 determines its lending value by appraising the property
6 or having it appraised by professional appraisers.
7 Lending value is the amount which a prudent lender
8 estimates could likely be recovered in case of default
9 through the sale of the property in times of less
10 favourable economic conditions. Involved in the deter-
11 mination of lending value are such factors as location,
12 age and quality of materials and construction, state of
13 maintenance, repair and general physical condition,
14 proximity to possible nuisances, suitability in relation
15 to value and type of properties in the area surrounding
16 the property offered as security, attractiveness of the
17 property planning and size of rooms, etc. It follows,
18 of course, that the factors involved will vary depending
19 upon whether it is an existing property or one to be
20 built or whether the property is a single dwelling, an
21 apartment, an office building, a warehouse, a process-
22 ing plant or a filling station, etc. etc. To this lend-
23 ing value is applied the percentage allowed by legis-
24 lation. Because lending value is a matter of educated
25 opinion, there are variations in the amount of loan which
26 various lenders are prepared to make on the same property.
27 Thus the amount of loan is an important factor in com-
28 petition. Other factors include the length of term,
29 the conditions and times of payment of principal and
30 interest and the conditions pertaining to the pay-out



1 and ready availability of the mortgage moneys. The
2 other important competitive factor is the rate of interest.
3 Mortgage lending is open to all. It is engaged in by
4 insurance companies, trust companies, investment
5 companies, endowment and church funds, pension funds,
6 estates and trust funds, etc. and the individual as well
7 as by government and its agencies. There is great
8 competition for mortgage loans not only among classes
9 of lenders but also among lenders of the same class.
10 Loan companies compete for the mortgage business offered
11 with other classes of lenders and with each other. Each
12 loan company endeavours to obtain mortgage loans through
13 its own staff and contacts with real estate dealers,
14 financial agencies, the legal profession and builders.
15 In localities where they have no office, a local
16 representative acts in the procurement of mortgage
17 loans. Each loan company prides itself on the quality
18 and speed of its service to would-be borrowers and does
19 its best to maintain the flow of mortgage loans to it.

20 64. Loan companies and other mortgage lenders
21 are concerned with the credit-worthiness of would-be
22 borrowers as well as with the physical property they
23 offer as security. They endeavour to ascertain all there
24 is to be known about the borrower -- the nature of his
25 employment and his employment history, his income and
26 prospects, his and his family's living habits, the ex-
27 tent of his savings and the source of the equity he
28 proposes to place in the property to be mortgaged. In
29 short the company endeavours to ascertain as far as
30 possible whether the prospective borrower is likely to



1 be a good mortgage borrower. Each loan company has
2 its own ground rules in evaluating credit-worthiness
3 and in determining whether or not the loan application
4 is acceptable for the full amount requested or for a
5 lesser amount or whether it should be rejected or grant-
6 ed at higher interest to compensate for whatever ad-
7 ditional risk may be present. Among these ground rules
8 may be a maximum amount beyond which the loan company
9 will not lend on any one property irrespective of its
10 lending value and this may apply in every area or only
11 in some areas. A loan company may not care to lend on
12 a property beyond a certain age and that age may differ
13 as between loan companies. Again a loan company may
14 dislike progress loans and prefer completion loans.
15 Because of their smaller size, some loan companies make
16 only residential loans or loans on other than residential
17 property only in modest amounts. Some companies may
18 require that the carrying charges on the mortgage may
19 not exceed a certain proportion of the borrower's in-
20 come as a condition of granting the loan. In order to
21 minimize the risk of loss, loan companies seek to
22 diversify their mortgage loans and to maintain a
23 balanced portfolio as to size of loan, type of property
24 and location. It follows that these ground rules will
25 vary from time to time and for different localities
26 and vary as between loan companies. Within these
27 ground rules determined at head office level and ap-
28 proved by the Directors, loan applications are obtained
29 and processed by the branch offices. If the branch
30 manager is prepared to recommend that the loan be made

on the basis of the information at its disposal

and in determining whether or not the loan application

is acceptable for the loan which requested on form 2

request of funds or whether it should be rejected or granted

and at the same time to consider the loan application

additional work may be done in the future when the loan

may be a financial statement showing the loan company

will not lend on any one of the following conditions of the

loaning value and that any other in any case or only

in some cases. A loan company may not be able to lend on

a property beyond a certain amount and that any other

as between loan companies. Again a loan company may

dislike to lend to a loan company and not to a loan

because of some other reason, some loan companies may

only lend to a loan company or to a loan company which

property of the loan company is not acceptable

require that the company be a member of the loan company

not exceed a certain amount of the loan company's

come as a condition of making the loan. In order to

minimize the risk of loss, loan companies may

the company may be required to have a certain amount

balanced portfolio as to the type of property

and location. I believe that the loan company will

very often find it difficult to find a loan

and that the loan company may be required to have

ground which is not a loan company's own land and

proved by the loan company. I believe that the loan

and the loan company may be required to have

property is not a loan company's own land and



1 as submitted or as modified, it is submitted for ap-
2 proval or ratification to head office, with the ulti-
3 mate responsibility resting on the Board of Directors
4 or a committee of its members empowered by resolution
5 of the Board. Where applications involve large amounts
6 such as apartments, commercial and industrial plants,
7 etc., the application may be made directly to head
8 office and there processed in consultation with the
9 manager of the branch where the property is situated
10 or where it is to be built.

11 65. In addition to making mortgage loans, loan
12 companies are authorized to purchase them, if they
13 qualify under the legislation. While some purchases
14 are made, these are insignificant when related to mort-
15 gage loans made by them. On occasion, loan companies
16 sell mortgages but these also are insignificant and
17 usually for special reasons. Loan companies are not
18 "traders" in mortgages. They build-up a portfolio of
19 mortgages for the purpose of investment.

20 Secondary Mortgage Market

21 66. For the present member loan companies have
22 only a mild, theoretical interest in the development of
23 the secondary mortgage market currently under discussion.
24 Loan companies are well equipped to make mortgage loans
25 and they have had a long and successful underwriting
26 experience in so doing. Why they should buy mortgages
27 instead of making mortgage loans in accordance with
28 their own standards of underwriting is not clear.
29 Similarly, having placed on their books mortgages made
30 in accordance with those standards, why they should



1 sell them is also not clear. There could, of course,
2 arise situations where sales of mortgages might become
3 necessary, such as to obtain liquidity or to withdraw
4 from certain areas or to facilitate collection but these
5 are special circumstances not contemplated in a secondary
6 mortgage market in the ordinary sense. Mortgages in
7 the hands of loan companies are practically all con-
8 ventional mortgages and as such are not readily adapt-
9 able to sale or purchase in a secondary market. As al-
10 ready indicated, National Housing Act mortgage loans
11 have not been attractive to member loan companies for
12 the reasons given in paragraph 61 and it is difficult
13 to visualize a situation where such mortgages would be
14 offered at such discount as would make their yield at-
15 tractive for purchase by member loan companies. In
16 these circumstances, it does not appear likely that
17 member loan companies will be active and substantial
18 participants in a secondary mortgage market.

19 67. As to holders of mortgages other than loan
20 companies, including insurance, trust and sundry invest-
21 ment companies and organizations, the chartered and
22 savings banks, etc., their participation in a secondary
23 mortgage market as purchasers and sellers is dependent
24 upon the impact of diverse factors present from time
25 to time and varying with the type of holder. For the
26 seven years ending with 1960, sales of insured mort-
27 gages recorded have amounted to \$247 million, made up
28 of \$164 million by chartered banks, \$32 million by life
29 insurance companies, \$47 million by other lenders and
30 \$3 million by Central Mortgage and Housing Corporation.



1 Corporate pension funds purchased \$160 million, other
2 corporations \$82 million, approved lenders \$4 million
3 and individuals \$1 million. During 1961, Central
4 Mortgage and Housing Corporation put up for sale \$51
5 million of insured mortgages held by it, of which some
6 \$41 million were either sold or optioned. Bids were
7 received from chartered banks, trust companies and in-
8 vestment dealers and it is indicated that for the most
9 part mortgages sold by option were ultimately sold to
10 pension funds.

11 68. Purchasers of insured mortgages in the main
12 have been investment institutions. Individuals have
13 participated only very little. To the extent that the
14 investment institutions concerned would not otherwise
15 have directed some of their funds into residential
16 mortgages, progress has been made in the establishment
17 of an orderly market for insured mortgages. While this
18 is a step forward, much remains to be done to develop
19 an active and steady market as this requires considerable
20 interest on the part of the general public. The more
21 optimistic among the advocates of an active and sub-
22 stantial secondary market hope that the general public
23 will come to view insured mortgages in the same light
24 as it does bonds and debentures which command a ready
25 market and that, in consequence, individuals and sundry
26 organizations and funds will come to use balances in
27 savings accounts for the purchase of mortgages, parti-
28 cularly insured mortgages, or will reduce their purchase
29 of bonds and securities and invest in mortgages. This
30 will not be brought about quickly nor easily as it will



1 require a campaign of education over considerable time
2 to make the public mortgage-minded. Mortgages lack
3 liquidity and the establishment of an organized market
4 place with quoted "bid" and "ask" prices will be neces-
5 sary if the individual is not to have difficulty find-
6 ing a seller or a buyer. The mortgage instrument is
7 not readily adaptable to purchase and sale. Because of
8 the specialized risks involved, it is an instrument
9 which requires attention by professionals who have
10 access to reserve funds in day to day administration
11 and in case of trouble -- a sort of attention which
12 individuals generally are incapable of giving. While
13 "insured" mortgages go a long way in giving protection
14 against loss, there are areas of loss which remain un-
15 protected. Unlike bonds and other securities which
16 can be had in \$100 or \$500 pieces, mortgages come in
17 much larger pieces, perhaps in the average of \$11,000
18 for insured mortgages. There are not many individuals
19 with sufficient money or willing to invest in such
20 large pieces. This will be overcome as existing mort-
21 gages are paid down but this will take considerable
22 time owing to the annuity plan of repayment over a long
23 term of years requiring only small repayments of princi-
24 pal in the early years -- on a 30 year $6\frac{1}{2}$ per cent
25 mortgage of \$1,000 after 10 years' repayments, the
26 principal owing is still \$845. Repayments of small
27 amounts each month present the additional problem of
28 reinvestment to the individual.

29 69. The difficulties present in obtaining the
30 direct participation of the general public --



...a campaign of education over considerable time
to make the public mortgage-minded. Mortgage bank
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place with quoted "bid" and "ask" prices will be necessary
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and in case of trouble -- a sort of attention which
individuals generally are incapable of giving. While
"insured" mortgages go a long way in giving protection
against loss, there are areas of loss which remain un-
protected. Unlike bonds and other securities which
can be had in \$100 or \$500 pieces, mortgages come in
much larger pieces, perhaps in the average of \$15,000
for insured mortgages. There are not many individuals
with sufficient money or willing to invest in such
large pieces. This will be overcome as existing mort-
gages are sold down but this will take considerable
time owing to the monthly plan of repayment over a long
term of years requiring only small repayments of principal
and in the early years -- on a 30 year 4% per cent
mortgage of \$15,000 after 10 years' repayments, the
balance owing is still 10,000. Repayments of small
amounts each month present the additional problem of
commitment to the individual.
The difficulties present in obtaining the
direct participation of the general public --



1 individuals and sundry funds and organizations -- in
2 mortgage investment are very real and of long standing.
3 Its indirect participation, however, has been very real
4 and substantial and has taken place by the pooling of
5 its funds through the operations of savings institutions
6 including insurance, loan and trust companies, chartered
7 and savings banks, and sundry other gatherers of savings
8 who make mortgage loans. However, there is a view held
9 by builders and others that more of the public's savings
10 should be directed to the financing of residential
11 construction and that this might be accomplished if
12 holders of mortgages were prepared to sell their hold-
13 ings and invest the proceeds in other mortgages by
14 making new mortgage loans. In the last few years
15 financial companies and new loan companies have been
16 formed some apparently with the intention of purchasing
17 mortgages while others with the intention of making
18 mortgage loans as well as of purchasing mortgages. As
19 with member loan companies, these new financial cor-
20 porations and loan companies have authority to sell their
21 securities to the public in order to obtain funds to
22 carry on their activities and the extent of their
23 operations will depend on their success in attracting
24 funds from the public. To the extent that such new
25 companies confine their operations to the purchase of
26 mortgages, or substantially so, a steady and adequate
27 supply of purchasable mortgages will be required at
28 prices providing yields to the purchasing companies
29 sufficient to enable them to cover their cost of bor-
30 rowed money, administration, provision for taxes and



individuals and society funds and organizations -- in
mortgage investment are very real and of long standing.
Its indirect participation, however, has been very real
and substantial and has taken place by the pooling of
the funds through the operation of savings institutions
including insurance, loan and trust companies, chambers
and savings banks, and various other agencies in various
the mortgage loans. However, there is a view held
by builders and others that more of the public's savings
should be directed to the financing of residential
construction and that this might be accomplished if
holders of mortgages were prepared to sell their hold-
ings and invest the proceeds in other mortgages by
making new mortgage loans. In the last few years
financial companies and new loan companies have been
formed some apparently with the intention of purchasing
mortgages while others with the intention of making
mortgage loans as well as of purchasing mortgages. At
present loan companies, these new financial insti-
tutions and loan companies have succeeded in selling
securities to the public in order to obtain funds to
carry on their activities and the extent of their
operations will depend on the success in raising
funds from the public. To the extent that such new
companies continue their operations to the extent of
being good, or substantially so, a steady and increasing
supply of funds will be available for the financing of
residential loans to the purchasing companies
and it is to be hoped that to cover their needs of
these loans, a substantial provision for taxes and



1 reserve for possible losses and to provide a satis-
2 factory return to shareholders. Under conditions where
3 such a supply is unavailable, the generating of mort-
4 gage loans will be necessary either directly by these
5 corporations and companies or by others for the ac-
6 count of such corporations and companies. The exercise
7 of their power of agency association by member loan
8 companies could be of assistance in the generating of
9 mortgages for the account of those financial corporations
10 and new companies who prefer not to engage in the making
11 of mortgage loans.

12 National Housing Act and the Existing House

13 70. One of the effects of the enactment of hous-
14 ing legislation by Parliament and the successive
15 liberalization of mortgage credit which has taken place
16 under it has been to shrink the new residential mort-
17 gage lending field open to conventional mortgage loans.
18 At the present time, the maximum amount of loan obtain-
19 able under the National Housing Act insured mortgage
20 is greater than the amount obtainable under the two-
21 thirds conventional mortgage pattern until a \$21,726
22 lending value is reached.

23 This means that for new residential construction with
24 a lending value of less than \$21,726, conventional mort-
25 gages in many cases are unattractive to would-be bor-
26 rowers. As far back as 1953 there has been agitation
27 for the extension of the Act to make available insured
28 mortgage loans in respect of the existing house. It
29 is argued by the advocates of this that it has become
30

...the business losses and to provide a satisfactory return to shareholders. Under conditions where such a supply is unavailable, the generating of mortgage loans will be necessary either directly by those corporations and companies or by others for the account of such corporations and companies. The exercise of their power of agency association by member loan companies could be of assistance in the generating of mortgages for the account of these financial corporations and new companies who prefer not to engage in the making of mortgage loans.

National Housing Act and the Existing Housing

10. One of the effects of the enactment of housing legislation by Parliament and the successive liberalization of mortgage credit which has taken place under it has been to shrink the new residential mortgage lending field open to conventional mortgage loans.

At the present time, the maximum amount of loan obtainable under the National Housing Act insured mortgage is greater than the amount obtainable under the new third conventional mortgage system until a \$25,000 lending value is reached.

This means that for new residential construction with a lending value of less than \$25,000, conventional mortgage loans in many cases are unattractive to mortgage lenders. As far back as 1955 there has been agitation for the extension of the Act to make available insured mortgage loans in respect of the existing housing. It is argued by the advocates of this that it has become



1 more difficult to sell new houses financed under the
2 Act and that a new band of purchasers would be created
3 among the owners of existing houses if the sale of
4 existing houses could be financed through the more
5 liberal mortgage credit of the National Housing Act.
6 It is said by builders' organizations that there is a
7 potentially substantial market among people who wish to
8 buy new houses and who might be prevailed upon to do
9 so, if their present house could be sold at prevailing
10 prices for cash, or nearly so, without having to take
11 back a large second mortgage from the purchasers as
12 part payment. Among the reasons advanced in support
13 of this by its advocates may be cited:-

14 a. A new market for new houses would be
15 created resulting in the building of more
16 new houses thus creating employment with
17 benefit to the economy generally, in-
18 cluding a more stable house building in-
19 dustry arising from a broader and steadier
20 market.

21 b. It would free for occupation by larger
22 families many bigger houses now occupied by
23 older people or people without family thus
24 bringing about a more economic use of hous-
25 ing space. On the one hand, it is said,
26 many such people would like to move to a
27 smaller house but are deterred from so doing
28 because they dislike selling and having to
29 accept paper as part payment to the extent
30 required by the conventional mortgage



more difficult to sell new houses financed under the Act and that a new band of purchasers would be created among the owners of existing houses if the sale of existing houses could be financed through the new Federal mortgage credit of the National Housing Act. It is said by builders' organizations that there is a potentially substantial market among people who wish to buy new houses and who might be prevailed upon to do so, if their present house could be sold at prevailing prices for cash, or nearly so, without having to take back a large second mortgage from the purchasers as part payment. Among the reasons advanced in support of this by its advocates may be cited:-

- a. A new market for new houses would be created resulting in the building of more new houses thus creating employment with benefit to the economy generally, including a more stable house building industry arising from a broader and steadier market.
- b. It would free the construction of larger families many higher houses now occupied by older people or people without family thus bringing about a more economic use of living space. On the one hand, it is said, many such people would like to move to a smaller house but are deterred from so doing because they dislike selling and having to



1 pattern. On the other hand, larger
2 families must look to the older existing
3 houses for shelter because few large houses
4 are built within a price range and income
5 ratio such families usually can afford
6 and such large families are unable to
7 purchase older existing houses because
8 they do not possess the greater down pay-
9 ment required by the owners of such houses
10 in the absence of a more liberal mortgage
11 pattern.

12 c. Now that the shortage of housing resulting
13 from the absence of building during the war
14 years has been largely met, Government as-
15 sistance should no longer be given to those
16 who wish to occupy new houses to the ex-
17 clusion of those who prefer or are forced
18 to occupy existing houses.

19 It is doubtful that many more new houses would result
20 from this move. Rather, it could well be that the
21 diversion of funds to the financing of existing houses
22 would result in less money being available to finance
23 new houses or, in the alternative, would require that
24 more government funds be directed into new housing.

25 It does not necessarily follow that the proceeds of an
26 insured loan on an existing house would be directed into
27 new housing. Such proceeds could have a variety of uses
28 including the purchase of a car, a boat, other consumer
29 goods or used for travel or investment. Because of the
30 prepayment privileges already discussed, such proceeds

... On the other hand, ...

families must look to the older existing
houses for shelter because few large houses
are built within a price range and income
range such families usually can afford
and even large families are unable to
purchase other existing houses because
they do not possess the greater down pay-
ment required by the owners of such houses
in the absence of a more liberal mortgage
pattern.

Now that the shortage of housing resulting
from the absence of building during the war
years has been largely met, Government as-
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It is doubtful that many more new houses would result
from this move. Rather, it could well be that the
diversion of funds to the financing of existing houses
would result in less money being available to finance
new houses or, in the alternative, would reduce the
more Government funds be directed into new housing.
It does not necessarily follow that the present in-
creased loan on an existing house would be directed into
new housing. Such proceeds could have a variety of uses
including the purchase of a car, a boat, other consumer
goods or used for travel or investment. Because of the
prevalent optimism already discussed, such proceeds



1 could be used by the owner merely to obtain cash or
2 refinance an existing mortgage to his advantage mean-
3 while continuing to own and occupy the same house.
4 While there are some, it is doubtful that there are
5 very many persons who do not buy new houses just be-
6 cause they cannot obtain all cash or cash down to the
7 mortgage on the sale of existing houses. In many
8 cases the impediment to sale may well be too high an
9 asking price. The increased demand for existing houses
10 engendered by the more liberal terms of the insured
11 mortgage would quite likely operate to raise prices
12 for existing houses and, to the extent that it would
13 create demand for new housing, tend to raise prices
14 on the new house.

15 71. Member loan companies are disturbed at the
16 thought that their field of operation may be curtailed
17 further as would be the case were insured mortgage
18 loans made available to finance existing houses. That
19 field has already been curtailed by the availability
20 of insured mortgage loans on new houses. Their in-
21 ability to participate in insured mortgage lending on
22 the new house in its present pattern has already been
23 discussed and, under that pattern, they would also be
24 unable to participate in insured mortgage lending on the
25 existing house. The companies are firmly of the view
26 that government backing should not be used as a means
27 of depriving them of business already on their books
28 or as a means of curtailing their activities in the
29 existing house mortgage field. They believe it to be
30 wrong in principle that government backing should be



1 used to enable home owners to cash in on their invest-
2 ment and to be discriminatory against forms of invest-
3 ment other than housing. Moreover, most existing houses
4 can be sold today at a profit over the homeowner's in-
5 vestment. While the companies have no objection to a
6 homeowner making a profit on the sale of his house,
7 they feel strongly that government backing should not
8 be the means whereby not only is the investment re-
9 covered but a profit as well.

10 Further, the companies consider the case in
11 favour of making insured mortgage loans available for
12 the financing of existing houses to be doubtful, if not
13 weak, and they believe that insured mortgage loans
14 should continue to be available only for the financing
15 of new housing.

16
17 Income and Expenditure

18 72. The income and expenditure statement of loan
19 companies registered in Ontario drawn up in accordance
20 with the practice adopted by that province is set out
21 in Appendix 7. The tabulation below summarizes this
22 statement and relates it in percentage to the mean of
23 assets in use during 1960 and 1956 and to the average
24 of assets in use during the five years ending with
25 1956.
26
27
28
29
30



| | 1960 | | 1960-56 incl. | | 1956 | |
|--------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>\$.000</u> | <u>Per Cent</u> | <u>\$.000</u> | <u>Per Cent</u> | <u>\$.000</u> | <u>Per Cent</u> |
| Mean of Assets in use | \$562 million | | | | \$399.5 million | |
| Average of Assets in use | | | \$472.7 million | | | |
| Gross Income | 38,478 | 6.846 | 30,370 | 6.425 | 24,098 | 6.032 |
| Gross Expenditure | <u>29,279</u> | <u>5.210</u> | <u>21,637</u> | <u>4.577</u> | <u>16,215</u> | <u>4.058</u> |
| Profit before Income Tax | 9,199 | 1.636 | 8,733 | 1.848 | 7,883 | 1.974 |
| Income Tax | <u>4,369</u> | <u>.777</u> | <u>3,798</u> | <u>.804</u> | <u>3,232</u> | <u>.809</u> |
| Profit after Income Tax | 4,830 | .859 | 4,935 | 1.044 | 4,651 | 1.165 |
| Dividends Declared | <u>3,828</u> | <u>.681</u> | <u>3,424</u> | <u>.724</u> | <u>3,032</u> | <u>.759</u> |
| Retained in use | <u>1,002</u> | <u>.178</u> | <u>1,511</u> | <u>.320</u> | <u>1,619</u> | <u>.406</u> |

Thus on the mean of assets in use of \$562 million in 1960 the profit after income tax was .859 per cent of such assets whereas on the average of such assets amounting to \$472.7 million in the five years ending with 1956 this profit was 1.044 per cent. While gross income was rising, gross expenditures were rising by a greater amount, the profit before income tax in 1960 of 1.636 per cent compared with that of 1.848 per cent for the five year average.

73. In Appendix 7, information is given in respect of 1945 and some prior years merely as a matter of historical interest. In 1928 there were 25 companies while in 1960 there were only 9 covered by the information. At the end of 1928, these companies had assets of \$230 million and they had made a profit of \$5,335 million after tax while in 1960 the companies had assets of \$593 million and they had a profit of \$4,830 million after tax.



74. As is to be expected interest is the big factor in the revenue account of loan companies. These items of interest cost are given in detail in Appendix 7. The average rates earned and paid, as calculated by the Registrar of Loan and Trust Corporations for Ontario and as published in his annual reports are as below:

| Paid | | | | Earned | | | |
|--------------------------------|----------|------------|-----------|---------------------|---------------------|--------|--|
| Average Rates - Percentages | Deposits | Debentures | Mortgages | Collateral Loans | Debentures Bonds | Stocks | |
| 1960 | 2.54 | 4.68 | 7.04 | 8.76 | 4.58 | 5.79 | |
| 1959 | 2.68 | 4.37 | 6.86 | 6.42 | 4.08 | 5.37 | |
| 1958 | 2.57 | 4.20 | 6.70 | 7.73 | 4.20 | 4.84 | |
| 1957 | 2.62 | 3.82 | 6.65 | 5.95 | 3.44 | 5.02 | |
| 1956 | 2.29 | 3.71 | 6.42 | 4.85 | 3.51 | 5.33 | |
| 1955 | 2.18 | 3.61 | 6.27 | 5.23 | 3.42 | 5.39 | |
| 1954 | 1.97 | 3.64 | 6.12 | .71 | 3.52 | 5.23 | |
| 1953 | 1.62 | 3.30 | 5.86 | .69 | 3.32 | 5.17 | |
| 1952 | 1.60 | 3.18 | 5.70 | .97 | 3.32 | 9.22 | |
| 1951 | 1.64 | 2.99 | 5.60 | .77 | 3.14 | 4.35 | |
| 1945 | 1.61 | 3.39 | 6.50 | 2.75 | 2.79 | 4.99 | |
| 1938 | 1.86 | 3.76 | 5.61 | 6.04 | 3.85 | 5.73 | |
| 1933 | 3.74 | 4.57 | 6.54 | 9.01 | 5.18 | 5.85 | |
| 1928 | 3.59 | 4.95 | 6.83 | 6.38 | 5.48 | * | |

* Stocks and Bonds combined.

75. Paragraph 72 relates items of income and expenditure to the mean or average of assets in use. In the following tabulation the same technique is used in respect of the principal interest items.



| | 1960 | | 1960-56 incl. | | 1956 | |
|------------------------------|-----------------|-----------|-----------------|----------|-----------------|----------|
| | \$.000 | Per Cent. | \$.000 | Per Cent | \$.000 | Per Cent |
| Mortgages - Mean or Average | \$443.5 million | | \$369.8 million | | \$309.5 million | |
| Interest Earned | 31,204 | 7.035 | 24,865 | 6.724 | 19,869 | 6.420 |
| Debentures - Mean or Average | \$341.5 million | | \$262.5 million | | \$200.5 million | |
| Interest Paid | 16,607 | 4.863 | 11,082 | 4.222 | 7,427 | 3.704 |
| Deposits - Mean or Average | \$130.5 million | | \$126.5 million | | \$119.5 million | |
| Interest Paid | 3,283 | 2.516 | 3,217 | 2.543 | 2,743 | 2.295 |
| Debentures and Deposits | \$472 million | | \$389 million | | \$320 million | |
| Interest Paid | 19,890 | 4.214 | 14,300 | 3.676 | 10,170 | 3.178 |

While the rate of return was rising in this period of five years on the portfolio of mortgages, the rate of interest cost on debenture and on deposit liabilities and on the aggregate of them was also rising but to a greater extent.

76. Loan company debenture and deposit liabilities have already been described. Because the rate of interest offered is the more important of the competitive factors involved in obtaining funds from the public, it has to be such as will be successful in so doing in the amounts and at the times required by the loan company seeking the funds. To obtain these funds, the loan company concerned will have to compete with other loan companies, and with other gatherers of savings. Where the funds desired have not been forthcoming, a loan company will increase its efforts to sell debentures and to attract deposits and, if these efforts do not produce results, it will offer a higher interest rate, with or without other inducements in a further effort to attract funds. If the achievement of this result would call for an



1 unprofitable borrowing rate in relation to the rate of
2 return expected from the contemplated mortgage loans,
3 the volume of such loans may be curtailed until the
4 situation rectifies itself or until the lending rate
5 obtainable in competition with other lenders rises to
6 again produce a satisfactory yield. Where the situ-
7 ation is such that mortgage loans of the type and quality
8 desired are difficult to obtain or are unobtainable at
9 a sufficient rate of return, sales of debentures will
10 be curtailed and efforts made to discourage deposits of
11 larger amounts or sales of debentures will continue at
12 a lower rate of interest in keeping with the attainment
13 of a satisfactory rate of return on obtainable mortgage
14 loans. Because deposit liabilities are demand obli-
15 gations, there will be hesitation in lowering the rate
16 of interest on them lest it give rise to the with-
17 drawal of deposits and there will be hesitation in in-
18 creasing it because the higher rate will be costly in-
19 asmuch as it will apply to existing deposits as well as
20 to new ones. Thus, changes in interest rates on deposit
21 liabilities will not be frequent nor will they be made
22 unless a substantial advantage is expected from the
23 change.

24 77. Where the debenture liability arose from
25 issues wholesaled to investment dealers and by them
26 retailed to the public, the same broad considerations
27 respecting debentures outlined in paragraph 76 will
28 apply except that the determination of the debenture
29 interest rate, term and other conditions of borrowing
30 will take place at the time of issue and be related to



1 the conditions obtaining in the securities market at
2 the time of issue rather than at shorter intervals as
3 is the case where the debentures are sold from day to
4 day.

5 78. Loan companies have a steady inflow of cash
6 in volume depending upon the size of the company and
7 arising from past loans and investments. This inflow
8 is in the nature of a revolving source of funds from
9 which to repay maturing debentures and make new loans
10 and enable the companies to take care of every day re-
11 quirements. Thus decisions to borrow, renew or retire
12 debenture obligations or to raise or lower interest
13 rates can be taken in an unhurried atmosphere after due
14 consideration of the possible results of such decisions.

15 79. Interest rates on mortgages are governed by
16 the demand for mortgage loans in relation to the supply
17 of funds seeking an outlet into mortgages. Both the
18 demand and supply factors differ in respect of dif-
19 ferent types of property and so the interest rate ap-
20 plicable to mortgages on property other than residential
21 property will differ from that applicable to mortgages
22 on property other than residential. Likewise, there
23 may be variations as between mortgages on single houses
24 and those on apartments and other rental properties
25 and as between different types of commercial and other
26 business properties. Similarly, there may be variations
27 in rates depending upon the location of the property
28 due to added costs of administration. - Where there ap-
29 pears to be an added element of risk, that will be
30 reflected in a higher rate. It does not necessarily
follow, however, that a lender will have a great variety
of rates as, for reasons of ease



1 and cost of administration, he may decide on a pattern
2 of two or three rates.

3 80. It has already been pointed out that there is
4 great competition for mortgage loans and that there are
5 various types of lenders in the field and numerous
6 lenders in each type, some with substantial funds and
7 some with modest funds. Each lender has a rate of
8 return at which he would like to put his funds to work
9 and he will endeavour to obtain it. Where that rate is
10 at a level where it will not attract mortgage loans of
11 the quality and type he desires, he will have to lower
12 his rate to a level where it is competitive with that
13 of other lenders seeking similar loans or be unable to
14 obtain the mortgage loans he seeks in the quantity he
15 desires. Where the rate he seeks to obtain is lower
16 than that of other lenders, he is free to lend at the
17 lower rate but he is more likely to raise his rate to
18 that of other lenders on the same type of property. In
19 this connection, it must be remembered that the interest
20 rate is only one of the factors of competition and that
21 a lender may be able to maintain his rate at the level
22 he desires by making a larger loan. Likewise, a lower
23 rate than the going rate may be reflected in a smaller
24 amount of loan.

25 81. Loan companies are part and parcel of this
26 competition. To survive, a loan company must obtain a
27 rate of return which will cover the cost of borrowed
28 money, the cost of administration, provision for losses,
29 provision for taxes, compensation to shareholders and,
30 if it is to progress, provision for retention in the



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...in this respect, he may decide on a pattern
...of two or three weeks.
...It has already been pointed out that there is
...great competition for mortgage loans and that there are
...various types of lenders in the field and numerous
...lenders in each type, some with substantial funds and
...some with modest funds. Each lender has a rate of
...return at which he would like to put his funds to work
...and he will endeavor to obtain it. Where that rate is
...at a level where it will not attract mortgage loans of
...the quality and type he desires, he will have to lower
...his rate to a level where it is competitive with some
...of other lenders seeking similar loans or be unable to
...obtain the mortgage loans he seeks in the quantity he
...desires. Where the rate he seeks to obtain is lower
...than that of other lenders, he is free to lend at that
...lower rate but he is more likely to raise his rate so
...that of other lenders on the same type of property. In
...this connection, it must be remembered that the interest
...rate is only one of the factors of competition and that
...a lender may be able to maintain his rate at the level
...he desires by making a larger loan. Likewise, a lower
...rate than the going rate may be reflected in a smaller
...amount of loans.
...loan companies are and parcel of this
...competition. In essence, a loan company that desires a
...rate of return which will cover the cost of borrowed
...money, the cost of administration, provision for losses
...provided for taxes, compensation to management and
...if it is necessary, provision for reserves in the



1 company of an amount it considers necessary for its
2 growth. This rate of return is the minimum on which is
3 based the asking rate with which the market will be
4 tested. Like other participants in the market for mort-
5 gage loans, each loan company is subject to its disci-
6 pline. If its rate is too high, it will experience
7 difficulty in obtaining mortgage loans and it will have
8 to adjust its rate to a competitive level to obtain
9 loans of the quality and in the quantity it desires.

10 82. As set out in the tabulation contained in
11 paragraph 75 on the mean of mortgage portfolios in 1960
12 and 1956 and on the average of such portfolios during
13 these five years, interest was earned at the rates of
14 7.035 per cent, 6.430 per cent and 6.724 per cent. Be-
15 cause member loan companies do almost no National Hous-
16 ing Act business, these rates pertain to conventional
17 mortgage loans. It is not possible to submit inform-
18 ation pertaining to the rate of interest at which the
19 mortgages were written because this type of information
20 is not generally collected by mortgage lenders. However,
21 one nationally operating loan company has maintained
22 such statistics and these are set out in Appendix 9,
23 showing for each year 1917 to 1961 inclusive the
24 average on new business accepted, on business renewed
25 during the year and on the aggregate. This is not
26 necessarily typical and is only submitted to indicate a
27 relative trend of rates over the period.

28 83. Costs of administration and operation ("all
29 other" shown in Appendix 7) related to the mean or
30 average of assets administered have been:

company of an amount it considers necessary for its

growth. This rate of return is the minimum on which it

based the asking price with which the market will be

tested. Like other participants in the market for mort-

gage loans, each loan company is subject to the discri-

pline. If the rate is too high, it will experience

difficulty in obtaining mortgage loans and it will have

to adjust the rate to a competitive level to obtain

loans of the quality and in the quantity it desires.

As set out in the tabulation contained in

paragraph 75 on the mean of mortgage portfolio in 1940

and 1945 and on the average of such portfolios during

these five years, interest was earned at the rate of

7.03% per cent, 6.43% per cent and 6.78% per cent. The

same member loan companies do also to the Federal Home-

ing Act business, these rates remain to conventional

mortgage loans. It is not possible to adjust them

either positively or the rate of interest on which the

mortgages were written because this type of information

is not generally collected by mortgage lenders. However,

one nationally operating loan company has maintained

such statistics and these are set out in Appendix 9.

showed for each year 1931 to 1941 inclusive the

volume of new business collected, or business received

during the year and on the average. This is not

necessarily correct and is only intended to illustrate a

possible trend of rates over the period.

Table of Administration and Operation (1931

Table) showing the approximate volume of business for

average of each year and the average rate.



| | | |
|----|-----------|-------|
| 1 | 1952 | 1.371 |
| 2 | 1953 | 1.373 |
| 3 | 1954 | 1.343 |
| 4 | 1955 | 1.271 |
| 5 | 1956 | 1.239 |
| 6 | 1957 | 1.249 |
| 7 | 1958 | 1.336 |
| 8 | 1959 | 1.326 |
| 9 | 1960 | 1.289 |
| 10 | 1956-1960 | 1.281 |

11
12 These costs include commissions on sale of debentures,
13 other commissions, advertising, audit fees, directors'
14 fees, furniture and fixtures, legal fees, postage,
15 telegrams, telephones and express, printing and
16 stationery, rents, salaries, staff pension plan,
17 travelling and miscellaneous.

18 84. In addition to the shareholders' audit re-
19 quired by law, the companies audit their branches, either
20 by a system of internal audit or by outside auditors or
21 both. Branches are visited regularly by head office
22 inspectors and head office accounting maintains ac-
23 counting controls of the operations of branches. Em-
24 ployees are bonded, often by a banker's blanket bond.
25 Mortgage loans are either approved or confirmed by head
26 office and the granting of such loans are reviewed by
27 the Directors or a Committee of them. In their employ-
28 ment practices, the companies prefer young men who have
29 a good education, not necessarily university, and who
30 show promise and likely aptitude for the kind of activity



1 carried on by a loan company. Loan companies generally
2 prefer to train their employees and it is seldom that
3 they go outside their own ranks to obtain men of senior
4 calibre. Employees who show promise are encouraged to
5 study various aspects, such as accounting, valuation
6 and appraisal and often the companies contribute sub-
7 stantially to the cost.

8 85. Shareholders' equity, being paid in capital,
9 surplus and reserves is shown in Appendix 4. Because
10 of the accounting methods used in publishing the annual
11 reports of the Registrar of Loan and Trust Corporations
12 for Ontario, it is not possible to segregate specific
13 reserves from surplus and reserves generally. In some
14 cases, assets are netted, that is, they are shown after
15 the deduction of specific reserves. It follows that the
16 aggregate of all reserves is somewhat greater than
17 shown in Appendix 4. It will have been noted from the
18 tabulation contained in paragraph 72 that dividends
19 declared are substantially smaller than 1 per cent when
20 related to total assets in use. The following tabu-
21 lation relates dividends declared to shareholders'
22 equity as it stood at the beginning of the year.

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| <u>Declared in</u> | <u>Per Cent to Equity</u> | <u>Declared in</u> | <u>Per Cent to Equity</u> |
|------------------------|-------------------------------|------------------------|-------------------------------|
| 1960 | 4.726 | 1953 | 3.956 |
| 1959 | 4.501 | 1952 | 3.702 |
| 1958 | 4.571 | 1951 | 3.261 |
| 1957 | 4.426 | 1945 | 3.337 |
| 1956 | 4.394 | 1938 | 3.148 |
| 1955 | 4.106 | 1933 | 4.612 |
| 1954 | 4.154 | 1928 | 5.018 |

86. Under Ontario legislation, loan companies report their assets at their book value. Under Federal legislation Federal and Provincial securities are reported at amortized value while other securities and stocks must be reported at market value, mortgages and other assets being reported at book values. The Registrar for Ontario and the Federal Superintendent may value or cause to be valued any asset which they believe may be over-valued and reserve against them in their published annual reports and may disallow assets ineligible under the legislation. Inasmuch as these reports are the basis upon which registration may be obtained or renewed with the possibility of their not being allowed to continue doing business, the companies will agree to set aside such reserves, special and general, as may be required and as requested by the supervisory authority concerned. Furthermore, the companies are conscious of their responsibilities towards their depositors, debenture holders and shareholders and have been anxious to set aside such reserves as may be indicated to be



| Per Cent to Equity | Per Cent to Equity | Per Cent to Equity | Per Cent to Equity |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 1955 | 4.106 | 1953 | 4.106 |
| 1956 | 4.398 | 1958 | 4.398 |
| 1957 | 4.486 | 1961 | 4.486 |
| 1958 | 4.571 | 1962 | 4.571 |
| 1959 | 4.656 | 1963 | 4.656 |
| 1960 | 4.741 | 1964 | 4.741 |
| 1961 | 4.826 | 1965 | 4.826 |
| 1962 | 4.911 | 1966 | 4.911 |
| 1963 | 5.000 | 1967 | 5.000 |
| 1964 | 5.089 | 1968 | 5.089 |
| 1965 | 5.178 | 1969 | 5.178 |
| 1966 | 5.267 | 1970 | 5.267 |
| 1967 | 5.356 | 1971 | 5.356 |
| 1968 | 5.445 | 1972 | 5.445 |
| 1969 | 5.534 | 1973 | 5.534 |
| 1970 | 5.623 | 1974 | 5.623 |
| 1971 | 5.712 | 1975 | 5.712 |
| 1972 | 5.801 | 1976 | 5.801 |
| 1973 | 5.890 | 1977 | 5.890 |
| 1974 | 5.979 | 1978 | 5.979 |
| 1975 | 6.068 | 1979 | 6.068 |
| 1976 | 6.157 | 1980 | 6.157 |
| 1977 | 6.246 | 1981 | 6.246 |
| 1978 | 6.335 | 1982 | 6.335 |
| 1979 | 6.424 | 1983 | 6.424 |
| 1980 | 6.513 | 1984 | 6.513 |
| 1981 | 6.602 | 1985 | 6.602 |
| 1982 | 6.691 | 1986 | 6.691 |
| 1983 | 6.780 | 1987 | 6.780 |
| 1984 | 6.869 | 1988 | 6.869 |
| 1985 | 6.958 | 1989 | 6.958 |
| 1986 | 7.047 | 1990 | 7.047 |
| 1987 | 7.136 | 1991 | 7.136 |
| 1988 | 7.225 | 1992 | 7.225 |
| 1989 | 7.314 | 1993 | 7.314 |
| 1990 | 7.403 | 1994 | 7.403 |
| 1991 | 7.492 | 1995 | 7.492 |
| 1992 | 7.581 | 1996 | 7.581 |
| 1993 | 7.670 | 1997 | 7.670 |
| 1994 | 7.759 | 1998 | 7.759 |
| 1995 | 7.848 | 1999 | 7.848 |
| 2000 | 7.937 | 2001 | 7.937 |
| 2001 | 8.026 | 2002 | 8.026 |
| 2002 | 8.115 | 2003 | 8.115 |
| 2003 | 8.204 | 2004 | 8.204 |
| 2004 | 8.293 | 2005 | 8.293 |
| 2005 | 8.382 | 2006 | 8.382 |
| 2006 | 8.471 | 2007 | 8.471 |
| 2007 | 8.560 | 2008 | 8.560 |
| 2008 | 8.649 | 2009 | 8.649 |
| 2009 | 8.738 | 2010 | 8.738 |
| 2010 | 8.827 | 2011 | 8.827 |
| 2011 | 8.916 | 2012 | 8.916 |
| 2012 | 9.005 | 2013 | 9.005 |
| 2013 | 9.094 | 2014 | 9.094 |
| 2014 | 9.183 | 2015 | 9.183 |
| 2015 | 9.272 | 2016 | 9.272 |
| 2016 | 9.361 | 2017 | 9.361 |
| 2017 | 9.450 | 2018 | 9.450 |
| 2018 | 9.539 | 2019 | 9.539 |
| 2019 | 9.628 | 2020 | 9.628 |
| 2020 | 9.717 | 2021 | 9.717 |
| 2021 | 9.806 | 2022 | 9.806 |
| 2022 | 9.895 | 2023 | 9.895 |
| 2023 | 9.984 | 2024 | 9.984 |
| 2024 | 10.073 | 2025 | 10.073 |
| 2025 | 10.162 | 2026 | 10.162 |
| 2026 | 10.251 | 2027 | 10.251 |
| 2027 | 10.340 | 2028 | 10.340 |
| 2028 | 10.429 | 2029 | 10.429 |
| 2029 | 10.518 | 2030 | 10.518 |
| 2030 | 10.607 | 2031 | 10.607 |
| 2031 | 10.696 | 2032 | 10.696 |
| 2032 | 10.785 | 2033 | 10.785 |
| 2033 | 10.874 | 2034 | 10.874 |
| 2034 | 10.963 | 2035 | 10.963 |
| 2035 | 11.052 | 2036 | 11.052 |
| 2036 | 11.141 | 2037 | 11.141 |
| 2037 | 11.230 | 2038 | 11.230 |
| 2038 | 11.319 | 2039 | 11.319 |
| 2039 | 11.408 | 2040 | 11.408 |
| 2040 | 11.497 | 2041 | 11.497 |
| 2041 | 11.586 | 2042 | 11.586 |
| 2042 | 11.675 | 2043 | 11.675 |
| 2043 | 11.764 | 2044 | 11.764 |
| 2044 | 11.853 | 2045 | 11.853 |
| 2045 | 11.942 | 2046 | 11.942 |
| 2046 | 12.031 | 2047 | 12.031 |
| 2047 | 12.120 | 2048 | 12.120 |
| 2048 | 12.209 | 2049 | 12.209 |
| 2049 | 12.298 | 2050 | 12.298 |
| 2050 | 12.387 | 2051 | 12.387 |
| 2051 | 12.476 | 2052 | 12.476 |
| 2052 | 12.565 | 2053 | 12.565 |
| 2053 | 12.654 | 2054 | 12.654 |
| 2054 | 12.743 | 2055 | 12.743 |
| 2055 | 12.832 | 2056 | 12.832 |
| 2056 | 12.921 | 2057 | 12.921 |
| 2057 | 13.010 | 2058 | 13.010 |
| 2058 | 13.099 | 2059 | 13.099 |
| 2059 | 13.188 | 2060 | 13.188 |
| 2060 | 13.277 | 2061 | 13.277 |
| 2061 | 13.366 | 2062 | 13.366 |
| 2062 | 13.455 | 2063 | 13.455 |
| 2063 | 13.544 | 2064 | 13.544 |
| 2064 | 13.633 | 2065 | 13.633 |
| 2065 | 13.722 | 2066 | 13.722 |
| 2066 | 13.811 | 2067 | 13.811 |
| 2067 | 13.900 | 2068 | 13.900 |
| 2068 | 13.989 | 2069 | 13.989 |
| 2069 | 14.078 | 2070 | 14.078 |
| 2070 | 14.167 | 2071 | 14.167 |
| 2071 | 14.256 | 2072 | 14.256 |
| 2072 | 14.345 | 2073 | 14.345 |
| 2073 | 14.434 | 2074 | 14.434 |
| 2074 | 14.523 | 2075 | 14.523 |
| 2075 | 14.612 | 2076 | 14.612 |
| 2076 | 14.701 | 2077 | 14.701 |
| 2077 | 14.790 | 2078 | 14.790 |
| 2078 | 14.879 | 2079 | 14.879 |
| 2079 | 14.968 | 2080 | 14.968 |
| 2080 | 15.057 | 2081 | 15.057 |
| 2081 | 15.146 | 2082 | 15.146 |
| 2082 | 15.235 | 2083 | 15.235 |
| 2083 | 15.324 | 2084 | 15.324 |
| 2084 | 15.413 | 2085 | 15.413 |
| 2085 | 15.502 | 2086 | 15.502 |
| 2086 | 15.591 | 2087 | 15.591 |
| 2087 | 15.680 | 2088 | 15.680 |
| 2088 | 15.769 | 2089 | 15.769 |
| 2089 | 15.858 | 2090 | 15.858 |
| 2090 | 15.947 | 2091 | 15.947 |
| 2091 | 16.036 | 2092 | 16.036 |
| 2092 | 16.125 | 2093 | 16.125 |
| 2093 | 16.214 | 2094 | 16.214 |
| 2094 | 16.303 | 2095 | 16.303 |
| 2095 | 16.392 | 2096 | 16.392 |
| 2096 | 16.481 | 2097 | 16.481 |
| 2097 | 16.570 | 2098 | 16.570 |
| 2098 | 16.659 | 2099 | 16.659 |
| 2099 | 16.748 | 2100 | 16.748 |
| 2100 | 16.837 | 2101 | 16.837 |
| 2101 | 16.926 | 2102 | 16.926 |
| 2102 | 17.015 | 2103 | 17.015 |
| 2103 | 17.104 | 2104 | 17.104 |
| 2104 | 17.193 | 2105 | 17.193 |
| 2105 | 17.282 | 2106 | 17.282 |
| 2106 | 17.371 | 2107 | 17.371 |
| 2107 | 17.460 | 2108 | 17.460 |
| 2108 | 17.549 | 2109 | 17.549 |
| 2109 | 17.638 | 2110 | 17.638 |
| 2110 | 17.727 | 2111 | 17.727 |
| 2111 | 17.816 | 2112 | 17.816 |
| 2112 | 17.905 | 2113 | 17.905 |
| 2113 | 17.994 | 2114 | 17.994 |
| 2114 | 18.083 | 2115 | 18.083 |
| 2115 | 18.172 | 2116 | 18.172 |
| 2116 | 18.261 | 2117 | 18.261 |
| 2117 | 18.350 | 2118 | 18.350 |
| 2118 | 18.439 | 2119 | 18.439 |
| 2119 | 18.528 | 2120 | 18.528 |
| 2120 | 18.617 | 2121 | 18.617 |
| 2121 | 18.706 | 2122 | 18.706 |
| 2122 | 18.795 | 2123 | 18.795 |
| 2123 | 18.884 | 2124 | 18.884 |
| 2124 | 18.973 | 2125 | 18.973 |
| 2125 | 19.062 | 2126 | 19.062 |
| 2126 | 19.151 | 2127 | 19.151 |
| 2127 | 19.240 | 2128 | 19.240 |
| 2128 | 19.329 | 2129 | 19.329 |
| 2129 | 19.418 | 2130 | 19.418 |
| 2130 | 19.507 | 2131 | 19.507 |
| 2131 | 19.596 | 2132 | 19.596 |
| 2132 | 19.685 | 2133 | 19.685 |
| 2133 | 19.774 | 2134 | 19.774 |
| 2134 | 19.863 | 2135 | 19.863 |
| 2135 | 19.952 | 2136 | 19.952 |
| 2136 | 20.041 | 2137 | 20.041 |
| 2137 | 20.130 | 2138 | 20.130 |
| 2138 | 20.219 | 2139 | 20.219 |
| 2139 | 20.308 | 2140 | 20.308 |
| 2140 | 20.397 | 2141 | 20.397 |
| 2141 | 20.486 | 2142 | 20.486 |
| 2142 | 20.575 | 2143 | 20.575 |
| 2143 | 20.664 | 2144 | 20.664 |
| 2144 | 20.753 | 2145 | 20.753 |
| 2145 | 20.842 | 2146 | 20.842 |
| 2146 | 20.931 | 2147 | 20.931 |
| 2147 | 21.020 | 2148 | 21.020 |
| 2148 | 21.109 | 2149 | 21.109 |
| 2149 | 21.198 | 2150 | 21.198 |
| 2150 | 21.287 | 2151 | 21.287 |
| 2151 | 21.376 | 2152 | 21.376 |
| 2152 | 21.465 | 2153 | 21.465 |
| 2153 | 21.554 | 2154 | 21.554 |
| 2154 | 21.643 | 2155 | 21.643 |
| 2155 | 21.732 | 2156 | 21.732 |
| 2156 | 21.821 | 2157 | 21.821 |
| 2157 | 21.910 | 2158 | 21.910 |
| 2158 | 22.000 | 2159 | 22.000 |
| 2159 | 22.089 | 2160 | 22.089 |
| 2160 | 22.178 | 2161 | 22.178 |
| 2161 | 22.267 | 2162 | 22.267 |
| 2162 | 22.356 | 2163 | 22.356 |
| 2163 | 22.445 | 2164 | 22.445 |
| 2164 | 22.534 | 2165 | 22.534 |
| 2165 | 22.623 | 2166 | 22.623 |
| 2166 | 22.712 | 2167 | 22.712 |
| 2167 | 22.801 | 2168 | 22.801 |
| 2168 | 22.890 | 2169 | 22.890 |
| 2169 | 22.979 | 2170 | 22.979 |
| 2170 | 23.068 | 2171 | 23.068 |
| 2171 | 23.157 | 2172 | 23.157 |
| 2172 | 23.246 | 2173 | 23.246 |
| 2173 | 23.335 | 2174 | 23.335 |
| 2174 | 23.424 | 2175 | 23.424 |
| 2175 | 23.513 | 2176 | 23.513 |
| 2176 | 23.602 | 2177 | 23.602 |
| 2177 | 23.691 | 2178 | 23.691 |
| 2178 | 23.780 | 2179 | 23.780 |
| 2179 | 23.869 | 2180 | 23.869 |
| 2180 | 23.958 | 2181 | 23.958 |
| 2181 | 24.047 | 2182 | 24.047 |
| 2182 | 24.136 | 2183 | 24.136 |
| 2183 | 24.225 | 2184 | 24.225 |
| 2184 | 24.314 | 2185 | 24.314 |
| 2185 | 24.403 | 2186 | 24.403 |
| 2186 | 24.492 | 2187 | 24.492 |
| 2187 | 24.581 | 2188 | 24.581 |
| 2188 | 24.670 | 2189 | 24.670 |
| 2189 | 24.759 | 2190 | 24.759 |
| 2190 | 24.848 | 2191 | 24.848 |
| 2191 | 24.937 | 2192 | 24.937 |
| 2192 | 25.026 | 2193 | 25.026 |
| 2193 | 25.115 | 2194 | 25.115 |
| 2194 | 25.204 | 2195 | 25.204 |
| 2195 | 25.293 | 2196 | 25.293 |
| 2196 | 25.382 | 2197 | 25.382 |
| 2197 | 25.471 | 2198 | 25.471 |
| 2198 | 25.560 | 2199 | 25.560 |
| 2199 | 25.649 | 2200 | 25.649 |
| 2200 | 25.738 | 2201 | 25.738 |
| 2201 | 25.827 | 2202 | 25.827 |
| 2202 | 25.916 | 2203 | 25.916 |
| 2203 | 26.005 | 2204 | 26.005 |
| 2204 | 26.094 | 2205 | 26.094 |
| 2205 | 26.183 | 2206 | 26.183 |
| 2206 | 26.272 | 2207 | 26.272 |
| 2207 | 26.361 | 2208 | 26.361 |
| 2208 | 26.450 | 2209 | 26.450 |
| 2209 | 26.539 | 2210 | 26.539 |
| 2210 | 26.628 | 2211 | 26.628 |
| 2211 | 26.717 | 2212 | 26.717 |
| 2212 | 26.806 | 2213 | 26.806 |
| 2213 | 26.895 | 2214 | 26.895 |
| 2214 | 26.984 | 2215 | 26.984 |
| 2215 | 27.073 | 2216 | 27.073 |
| 2216 | 27.162 | 2217 | 27.162 |
| 2217 | 27.251 | 2218 | 27.251 |
| 2218 | 27.340 | 2219 | 27.340 |
| 2219 | 27.429 | 2220 | 27.429 |
| 2220 | 27.518 | 2221 | 27.518 |
| 2221 | 27.607 | 2222 | 27.607 |
| 2222 | 27.696 | 2223 | 27.696 |
| 2223 | 27.785 | 2224 | 27.785 |
| 2224 | 27.874 | 2225 | 27.874 |
| 2225 | 27.963 | 2226 | 27.963 |
| 2226 | 28.052 | 2227 | 28.052 |
| 2227 | 28.141 | 2228 | 28.141 |
| 2228 | 28.230 | 2229 | 28.230 |
| 2229 | 28.319 | 2230 | 28.319 |
| 2230 | 28.408 | 2231 | 28.408 |
| 2231 | 28.497 | 2232 | 28.497 |
| 2232 | 28.586 | 2233 | 28.586 |
| 2233 | 28.675 | 2234 | 28.675 |
| 2234 | 28.764 | 2235 | 28.764 |
| 2235 | 28.853 | 2236 | 28.853 |
| 2236 | 28.942 | 2237 | 28.942 |
| 2237 | 29.031 | 2238 | 29.031 |
| 2238 | 29.120 | 2239 | 29.120 |
| 2239 | 29.209 | 2240 | 29.209 |
| 2240 | 29.298 | 2241 | 2 |



1 desirable when circumstances arise suggesting the pos-
2 sibility of loss. The setting up of reserves is made
3 difficult by the high rate of taxation under the Income
4 Tax Act as only about one-half of the profits remains
5 in the hands of the companies with which to remunerate
6 the shareholders, to set up reserves and provide for
7 the growth of the companies. Except for the chartered
8 and Quebec savings banks, the act does not permit
9 deductions for the setting-up of reserves against loss
10 or contingencies. In the result, anticipated losses
11 must be provided for out of tax-paid income by loan
12 companies. It was this situation which led to repre-
13 sentations over many years and which resulted in 1955
14 in amendments to the act permitting deductions for a
15 stipulated reserve in respect of conventional mortgages,
16 no deduction being permitted in respect of possible
17 loss on securities including stocks or other assets.
18 Based on the experience of the companies during the
19 twenty year period ending with 1948, they asked for
20 deductions of $\frac{1}{2}$ of 1 per cent per year to a maximum of
21 5 per cent of the portfolio of mortgages and real estate
22 holdings arising from mortgage loans. The amendment
23 which was made applies to conventional mortgage loans
24 and permits an annual deduction of $\frac{1}{4}$ of 1 per cent
25 annually to a maximum of 3 per cent. While the amend-
26 ment was welcomed as a start by member loan companies,
27 they felt that the maximum permitted was too small and
28 would take too long a time to accumulate. With the
29 heavy demand for mortgage loans and the consequent
30 large increase in their mortgage portfolios which has

large increase in their mortgage portfolios which has
heavy demand for mortgage loans and the consequent
would take too long a time to recoup. With the
they felt that the maximum committed was too small and
ment was welcomed as a start by member loan companies.
annually to a maximum of 3 per cent. While the amount
and permits an annual deduction of $\frac{1}{2}$ of 1 per cent
which was made applies to conventional mortgage loans
holdings arising from mortgage loans. The amendment
5 per cent of the portfolio of mortgages and real estate
deductions of $\frac{1}{2}$ of 1 per cent per year to a maximum of
twenty year period ending with 1965, they asked for
based on the experience of the companies during the
loss on securities including stocks or other assets.
no deduction being permitted in respect of available
retained reserve in respect of conventional mortgages.
in amendments to the act permitting deductions for a
rentations over many years and which resulted in 1955
companies. It was this situation which led to repre-
must be provided for out of tax-paid income by loan
or contingencies. In the result, anticipated losses
deductions for the setting-up of reserves against
and Quebec savings banks, the act does not permit
the growth of the companies. Except for the chartered
the shareholders, to set up reserves and provide for
in the hands of the companies with which to remunerate
Tax Act as only about one-half of the profits remain
difficult by the high rate of taxation under the Income
ability of loss. The setting up of reserves is made



1 taken place since the amendment was enacted, they believe
2 that there is justification for an increase in the
3 present maximum to 6 per cent accumulated by annual
4 deductions of $\frac{1}{2}$ of 1 per cent. The retention by them
5 of funds which would otherwise be payable to the tax-
6 ation authorities would thus be available to take care
7 of losses when they arise. The method required to be
8 followed by the Act in setting up and operating this
9 reserve is in effect only a deferment of the tax, as
10 established losses are deductible in the ordinary way
11 and to the extent that a mortgage portfolio is de-
12 creased the reserve must be brought back into income
13 in arriving at taxable income. The mortgage business
14 is a long term proposition. The companies know that
15 there will be losses on the mortgages which they hold
16 but they do not know which ones will give rise to losses
17 nor how large will be those losses -- they will not
18 know this until the mortgages get into trouble or until
19 they are paid off. In the event of trouble, income on
20 which tax has been paid may turn out not to have been
21 income at all -- they desire to continue to provide
22 against such an eventuality by setting up a reserve for
23 the purpose but they consider that the size of reserve
24 allowed them is too small.

25 87. In preparing this submission, it has been the
26 desire of member loan companies to be helpful to the
27 Commission. If additional information is required of
28 them, they will endeavour to obtain it.

29 Respectfully submitted,

30
J. Allyn Taylor
Association President

J.E. Fortin
Association Secretary-
Treasurer



Loan Companies Registered in Ontario
and Loan Companies Supervised by the
Federal Superintendent of Insurance,
as at December 31, 1960

The first 7 named are members of The Dominion
Mortgage and Investments Association.

| | \$ Thousands | <u>Assets</u> |
|--|--------------|---------------|
| 1. Canada Permanent Mortgage Corp. | 233,388 | |
| Head Office - Toronto | | |
| Federal incorporation. Established | | |
| 1855 - Operates in All provinces. | | |
| 2. Credit Foncier Franco-Canadien | 100,252 | |
| Head Office - Montreal | | |
| Quebec incorporation. Established | | |
| 1880 - Operates in Quebec and all | | |
| provinces West. | | |
| 3. The Eastern Canada Savings and Loan Co. | 46,166 | |
| Head Office - Halifax | | |
| Federal incorporation. Established | | |
| 1887 - Operates in Maritime provinces | | |
| and Newfoundland. | | |
| 4. The Huron and Erie Mortgage Corporation | 156,581 | |
| Head Office - London | | |
| Federal incorporation. Established | | |
| 1864 - Operates in Quebec and all | | |
| provinces West. | | |



Loan Companies Registered in Ontario
and Loan Companies Supervised by the
Federal Superintendent of Insurance,

as at December 31, 1950

The first 7 named are members of The Dominion

Mortgage and Investments Association.

\$ Thousands Assets

Head Office - Toronto

Federal Incorporation. Established

1855 - Operates in all provinces.

Head Office - Montreal

Quebec Incorporation. Established

1880 - Operates in Quebec and all

provinces West.

3. The Eastern Canada Savings and Loan Co.

Head Office - Halifax

Federal Incorporation. Established

1887 - Operates in Maritime provinces

and Newfoundland.

Head Office - London

1914 - Operates in Quebec and all



| | | |
|----|--|--------|
| 1 | 5. The Lambton Loan and Investment Co. | 11,731 |
| 2 | Head Office - Sarnia | |
| 3 | Ontario incorporation. Established | |
| 4 | 1847 - Operates in Ontario. | |
| 5 | 6. The Ontario Loan and Debenture Company | 44,547 |
| 6 | Head Office - London | |
| 7 | Ontario incorporation. Established | |
| 8 | 1870 - Operates in Ontario, Alberta | |
| 9 | and British Columbia. | |
| 10 | 7. Royal Trust Company Mortgage Corp. | 2,550 |
| 11 | Head Office - Montreal | |
| 12 | Quebec incorporation. Established | |
| 13 | 1912 revived 1959 - Operates in all | |
| 14 | provinces except Alberta and Prince | |
| 15 | Edward Island. | |
| 16 | 8. Commonwealth Mortgage and Savings Corp. | 898 |
| 17 | Head Office - Ottawa | |
| 18 | Ontario incorporation. Established | |
| 19 | 1959 - Operates in Ontario. | |
| 20 | 9. Family Mortgage Company | 567 |
| 21 | Head Office - Toronto | |
| 22 | Ontario incorporation. Established | |
| 23 | 1959 - Operates in all provinces. | |
| 24 | 10. Gillespie Mortgage Corporation | 172 |
| 25 | Head Office - Vancouver | |
| 26 | Federal incorporation. Established | |
| 27 | 1955 - Operates in British Columbia. | |
| 28 | | |
| 29 | | |
| 30 | | |



Head Office - Toronto

1847 - Operates in Ontario.

14.547

6. The Ontario Loan and Debenture Company

Head Office - London

1870 - Operates in Ontario, Alberta

and British Columbia.

Head Office - Montreal

1912 received 1929 - Operates in all

provinces except Alberta and Prince

Edward Island.

896

8. Commonwealth Mortgage and Savings Corp.

Head Office - Ottawa

Ontario Incorporation. Established

1929 - Operates in Ontario.

507

9. Family Mortgage Company

Head Office - Toronto

1929 - Operates in all provinces.

575

10. Ontario Mortgage Corporation

Head Office - Vancouver

Ontario Incorporation. Established

1925 - Operates in British Columbia.



| | | |
|----|--|--------|
| 1 | 11. International Savings and Mortgage Corp. | 2,519 |
| 2 | Head Office - Winnipeg | |
| 3 | Federal incorporation. Established | |
| 4 | 1913 and 1920 - Operates in the | |
| 5 | the Prairie Provinces | |
| 6 | 12. Nova Scotia Savings Loan and Building | 19,016 |
| 7 | Head Office - Halifax | |
| 8 | Nova Scotia incorporation. Established | |
| 9 | 1849 - Operates in New Brunswick and | |
| 10 | Nova Scotia | |
| 11 | 13. Yarmouth Building and Loan Society | 1,134 |
| 12 | Head Office - Yarmouth | |
| 13 | Nova Scotia incorporation. Established | |
| 14 | 1880 - Operates in Nova Scotia | |
| 15 | | |
| 16 | | |
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| 27 | - | |
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| 29 | | |
| 30 | | |

2,512

11. International Savings and Mortgage Corp.

1915 and 1920 - Operates in the

the Pacific Provinces

29,015

12. Nova Scotia Savings Loan and Building

Head Office - Halifax

Nova Scotia incorporation. Established

1849 - Operates in New Brunswick and

1,134

13. Yarmouth Building and Loan Society

Head Office - Yarmouth

1880 - Operates in Nova Scotia



Loan Companies which were no

longer in existence on December 31, 1960

1921 The London and Canadian Loan and Agency Company Limited.

Assets purchased by Canada Permanent Mortgage Corporation.

1922 The Dominion Savings and Investment Society.

Assets purchased by Huron and Erie Mortgage Corporation.

1922 The Waterloo County Loan and Savings Company became The Waterloo Trust and Savings Company.

1924 Victoria Loan and Savings Company became the Victoria Trust and Savings Company.

1926 The British Mortgage Loan Company of Ontario became The British Mortgage and Trust Corporation of Ontario.

1926 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage Corporation.

1926 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage Corporation.

1926 The Owen Sound Loan and Savings Company and The Grey Bruce Loan Company merged.

1926 Port Arthur and Fort William Loan and Savings Company went into voluntary liquidation.

1927 The British Columbia Permanent Loan Company.

Assets purchased by Canada Permanent Mortgage Corporation.



longer in existence on December 31, 1960

1961 The London and Canadian Loan and Agency Company

Assets purchased by Canada Permanent Mortgage

The Dominion Savings and Investment Society.

Assets purchased by Huron and Erie Mortgage

Corporation.

1962 The Waterloo County Loan and Savings Company

became The Waterloo Trust and Savings Company.

1964 Victoria Loan and Savings Company became the

Victoria Trust and Savings Company.

1966 The British Mortgage Loan Company of Ontario

became The British Mortgage and Trust

Corporation of Ontario.

1968 The Hamilton Provident and Loan Corporation

Assets purchased by Huron and Erie Mortgage

1969 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage

1972 The Owen Sound Loan and Savings Company and The

Grey Bruce Loan Company merged.

1980 Port Arthur and Fort William Loan and Savings

Company went into voluntary liquidation.

The British Columbia Permanent Loan Company.

Assets purchased by Canada Permanent Mortgage



1 1927 The Canada Landed and National Investment Company
2 Assets purchased by Canada Permanent Mortgage
3 Corporation.

4 1927 The Royal Loan and Savings Company.
5 Assets purchased by Canada Permanent Mortgage
6 Corporation.

7 1927 The Southern Loan and Savings Company.
8 Assets purchased by Huron and Erie Mortgage
9 Corporation.

10 1928 The Industrial Savings and Mortgage Company
11 became The Industrial Mortgage and Trust Company

12 1928 The East Lambton Farmers' Loan and Savings
13 Company.
14 Assets purchased by Industrial Mortgage and
15 Trust Company.

16 1929 Canadian Mortgage Investment Company retired
17 from business.

18 1929 Brockville Loan and Savings Company became The
19 Brockville Trust and Loan Company.

20 1929 The London Loan and Savings Company.
21 Assets purchased by Huron and Erie Mortgage
22 Corporation.

23 1931 The People's Loan and Savings Corporation.
24 Assets purchased by Huron and Erie Mortgage
25 Corporation.

26 1936 Crown Savings and Loan Company.
27 Assets purchased by Industrial Mortgage and
28 Trust Company.

Canada Landed and National Investment Company

Assets purchased by Canada Permanent Mortgage

Corporation.

1907 The Royal Loan and Savings Company.

The Southern Loan and Savings Company.

Assets purchased by Nelson and Erie Mortgage

The Industrial Savings and Mortgage Company

became The Industrial Mortgage and Trust Company

The Bank of Montreal, Loan and Savings
Company.

Assets purchased by Industrial Mortgage and

Canada's Mortgage Investment Company referred

to as follows.

Provincial Loan and Savings Company became The

Provincial Trust and Loan Company.

The London Loan and Savings Company.

Assets purchased by Nelson and Erie Mortgage

The Royal Loan and Savings Corporation.

Assets purchased by Nelson and Erie Mortgage

Corporation.

Great Savings and Loan Company

Assets purchased by Industrial Mortgage and



- 1 1939 Security Loan and Savings Company.
- 2 Assets purchased by The Premier Trust Corporation
- 3 1943 Niagara Falls Loan and Savings Company.
- 4 Assets purchased by Guaranty Trust Company.
- 5 1944 The Landed Banking and Loan Company.
- 6 Assets purchased by Canada Permanent Mortgage
- 7 Corporation.
- 8 1945 The Real Estate Loan Company of Canada Limited.
- 9 Assets purchased by Canada Permanent Mortgage
- 10 Corporation.
- 11 1946 The Montreal Loan and Mortgage Company.
- 12 Assets purchased by Canada Permanent Mortgage
- 13 Corporation.
- 14 1948 Midland Loan and Savings Company.
- 15 Assets purchased by Canada Permanent Mortgage
- 16 Corporation.
- 17 1949 Peterborough Workingmen's Building and Savings
- 18 Society went into voluntary liquidation.
- 19 1949 The Guelph and Ontario Investment and Savings
- 20 Society.
- 21 Assets purchased by Huron and Erie Mortgage
- 22 Corporation.
- 23 1958 The Toronto Mortgage Company.
- 24 Assets purchased by Canada Permanent Mortgage
- 25 Corporation.
- 26
- 27
- 28
- 29
- 30



1940

and Savings Company.

Assets purchased by The Prudential Trust Corporation.

1941 Niagara Falls Loan and Savings Company.

Assets purchased by Guaranty Trust Company.

1942 The United Banking and Loan Company.

Assets purchased by Canada Permanent Mortgage

1943 The Bank of Montreal Loan Company of Canada Limited.

Assets purchased by Canada Permanent Mortgage

1944 The Montreal Ice and Mortgage Company.

Assets purchased by Canada Permanent Mortgage

1945 Midland Loan and Savings Company.

Assets purchased by Canada Permanent Mortgage

1946 Peterborough Homeowners' Building and Savings

Society went into voluntary liquidation.

1947 The Quebec and Ontario Investment and Savings

Society.

Assets purchased by Hudson and Erie Mortgage

1948 The Toronto Mortgage Company.

Assets purchased by Canada Permanent Mortgage



Incorporation of Loan Companies

Federal

1. Parliament incorporates loan companies by Special Act which act specifies the capitalization and the conditions relating to commencement of business. Such companies are governed by the provisions of the Loan Companies Act, Canada but, as Parliament may determine, the provisions of the Act may be varied for particular loan companies. Loan companies operate in the provinces by virtue of a system of licensing or registration determined by their legislation which specifies the conditions of registration or licensing.

2. Majority of Directors must be residents of Canada and subjects of Her Majesty by birth or naturalization.

3. The nature of the investments and loans and the limitations and conditions applicable thereto are spelled out in the Loan Companies Act, as well as the types and limits of permitted borrowings and other conditions of operation.

4. Federally incorporated loan companies are subject to supervision and inspection by the Superintendent of Insurance for Canada.

British Columbia

5. Loan companies are incorporated under the Companies Act in the same way as trading companies. There are no special provisions for the incorporation of loan companies nor are there any provisions as to

Integration of Loan Companies

1. Parliament incorporated loan companies by Special Act which set apart the capitalization and the conditions relating to management of business. Such companies are governed by the provisions of the Loan Companies Act, Canada Inc. as Parliament may determine, the provisions of the Act may be varied for particular loan companies. Loan companies operate in the provinces by virtue of a system of licensing or registration determined by their legislation which prescribes the conditions of registration or licensing.

2. Majority of Directors must be residents of Canada and subjects of Her Majesty by birth or naturalization.

3. The nature of the investments and loans and the limitations and conditions applicable thereto are spelled out in the Loan Companies Act, as well as the types and limits of permitted borrowings and other conditions of operation.

4. Properly incorporated loan companies are subject to supervision and inspection by the Superintendent of Insurance for Canada.

British Columbia
Loan companies are incorporated under the Companies Act in the same way as trading companies. There are no special provisions for the incorporation of loan companies nor are there any provisions as to



1 the conduct of the business of a loan company, invest-
2 ment powers, borrowing powers etc., etc. Annual
3 returns are made to the Registrar of Companies.

4 6. Where the charter authorizes the taking of
5 deposits (the taking of deposits is "trust" business
6 under the Trust Companies Act, British Columbia) a
7 loan company is subject to the Trust Companies Act,
8 British Columbia, unless it is "approved" by the
9 Lieutenant Governor in Council, in which case, it is
10 subject to only certain provisions of that Act includ-
11 ing reporting and supervision. However, this does not
12 apply to a loan company licensed by the Loan Companies
13 Act, Canada but such a company may be required to
14 complete and file such returns as may be prescribed by
15 the Registrar of Trust Companies for the province.

16 7. Non-British Columbia loan companies require
17 to be registered in order to do business in the
18 province. Annual return to the Registrar is made in
19 the form specified by the Act dealing with capitali-
20 zation, directors, objects and the like.

21 Alberta

22 8. Loan companies are incorporated under the
23 provisions of the Companies Act in the same way as
24 trading companies. There are no provisions respecting
25 the carrying on of the business of loan companies,
26 investment powers, borrowing powers etc. Annual return
27 to Registrar of Joint Stock Companies is required.

28 9. Non-Alberta loan companies require to be
29 registered in order to do business in the province.
30



1 Annual return to Registrar is made in form specified
2 by the Act as to capitalization, directors and the like.

3 Saskatchewan

4 10. Loan companies are incorporated under the
5 Loan Companies Act of the province. Such companies
6 have no power to take deposits. Bonds, debentures
7 and other borrowings are limited to 4 times paid-up
8 and unimpaired capital plus cash and war-loan securi-
9 ties of Canada and the Imperial Government. Authorized
10 investments are set-out.

11 11. Non-Saskatchewan loan companies require to
12 be registered or licensed under the Companies Act in
13 order to do business in the province. Annual return
14 must be made to the Registrar of Joint Stock Companies
15 on capital structure names of directors etc.

16 12. Under the Companies Inspection and Licensing
17 Act, an annual return containing information as to
18 Saskatchewan business is required in order to obtain
19 a license to do the business of a loan company. Loan
20 companies may be inspected by the Superintendent of
21 Insurance for Saskatchewan, except those inspected by
22 the Federal Superintendent of Insurance.

23
24 Manitoba

25 13. Loan companies are incorporated under the
26 Companies Act's special provisions dealing with loan
27 companies. To commence business, at least \$250,000
28 must be subscribed and \$100,000 must be deposited in
29 a bank.

30 14. Authorized investments together with



Annual return to Registrar is made in form specified
by the Act as to capitalization, directors and the like.

Particulars

10. From companies are incorporated under the
Companies Act of the province. Such companies
have no power to take deposits, borrow, defraud
and other companies are limited to 4 times paid-up
and authorized capital plus cash and various securities
of Canada and the Imperial Government. Authorized
investments are set out.

11. Non-Resident Companies are required to
be registered or licensed under the Companies Act in
order to do business in the province. Annual return
must be made to the Registrar of Joint Stock Companies
on capital structure names of directors etc.

12. Under the Companies Inspection and Licensing
Act, an annual return containing information as to
Saskatchewan business is required in order to obtain
a license to do the business of a loan company. Loan
companies may be inspected by the Superintendent of
Insurance for Saskatchewan, except those inspected by
the Federal Superintendent of Insurance.

Particulars

13. Loan companies are incorporated under the
Companies Act of the province, capitalizing with not
less than \$100,000. The company business is limited to
must be authorized and \$100,000 must be secured in



1 limitations are spelled out. Borrowings are limited to
2 4 times unimpaired paid-up capital and reserve plus
3 cash and war-loan securities of Canada and United
4 Kingdom.

5 15. There is provision for supervision and in-
6 spection by an appointed Superintendent or by the
7 Federal Superintendent of Insurance. This applies to
8 Manitoba incorporated loan companies, to those which
9 the Provincial Secretary names and all companies that
10 issue debentures in which Trustees in Manitoba may
11 invest.

12 16. Annual return under Companies Act is re-
13 quired on capitalization, directors, debenture and
14 last balance sheet.

15 17. All loan companies required to be registered
16 and authorized to do the business of a loan company.
17 Loan companies other than Manitoba or Federal require
18 a special act of Manitoba to authorize them to do
19 business in Manitoba.

20 Ontario

21 18. Loan companies are incorporated under the
22 provisions of the Loan and Trust Corporations Act upon
23 application to the Minister. The Act spells out in
24 detail the nature and limitations of the investments
25 and loans which may be made by a loan company and
26 authorizes the taking of deposits and the issue of
27 debentures, bonds and other obligations within the
28 limits prescribed in the Act. It is provided that the
29 majority of the directors must be residents of Canada
30



1 and subjects of Her Majesty by birth or naturalization.

2 19. No incorporated body or person acting on its
3 behalf other than a corporation registered under the
4 Act can undertake or transact the business of a loan
5 company in Ontario.

6 20. The business of a loan company is defined as
7 lending on the security of real estate (among other
8 things) but does not extend to the purchase of or in-
9 vestment in mortgages. Companies who confine them-
10 selves to the purchase of or investment in mortgages
11 and who do not make mortgage loans are not required to
12 register as set out in paragraph 19 above.

13 21. Under the provisions of the Corporations Act
14 applicable to corporations generally, companies may be
15 incorporated to make mortgage loans and to purchase or
16 invest in mortgages and such companies do not fall with-
17 in the provisions of the Loan and Trust Corporations
18 Act. However, such companies are limited to 5 share-
19 holders, are prohibited from accepting deposits and
20 may borrow only from their shareholders.

21 22. All loan companies are required to register
22 (subject to the exceptions noted above) under the Loan
23 and Trust Corporations Act, whether they be Federal,
24 Ontario, other Provincial or Foreign incorporations.
25 Companies with powers greater than those permitted to
26 Ontario incorporations may be admitted to registry by
27 special Act. Such special Acts usually require the
28 loan company to exercise in Ontario only such of their
29 powers as are permitted to Ontario incorporated loan
30 companies.

and subjects on Her Majesty by virtue of naturalization.
10. The Incorporated body or person as far as its
financial affairs shall be treated as if it were a
body corporate and as such shall be subject to a law
enacted in that behalf.
11. The purpose of a body corporate is defined as
the carrying on of the business of real estate (among other
things) but does not extend to the business of or in
relation to mortgages. Government may however
relate to the business of or in relation to mortgages
and who do not have mortgage loans, and not required to
register as set out in paragraph 12 above.
12. Under the provisions of the Mortgage Act
applicable to corporations generally, companies may be
incorporated as a mortgage lender and as guarantors of
loans in mortgages and such companies do not fall within
the provisions of this Act and that the provisions
of this Act shall not apply to them. However, where the
provisions of this Act are limited to 5 shares
or less, the provisions of this Act shall apply to them.
13. All loans contracts are required to register
with the Registrar of Companies (or its agent) under the
provisions of the Companies Act, whether they be
loans provided by a foreign or local company.
14. Companies which provide loans shall be required to
provide information as to the amount of loans provided
and the names of the borrowers and the interest rate
charged for the loans. This information shall be
provided to the Registrar of Companies (or its agent) at
least once a year. The Registrar of Companies (or its
agent) shall be required to publish this information
in a form accessible to the public.



23. Loan companies who make mortgage loans or who buy or invest in mortgages are not eligible for registry unless 95 per cent of those mortgages are first mortgages.

24. All registered companies are subject to the supervision and inspection of the Registrar of Loan and Trust Corporations. Annual voluminous returns are required to be made to the Registrar.

Quebec

25. Loan companies may be incorporated by letters-patent under the Companies Act or by Special Act. The Companies Act does not contain provisions respecting the carrying on of the business of loan companies, investment powers or borrowing powers. These depend on the provisions of the letters-patent or Special Act.

26. Such companies may be inspected by appointees of the Provincial Secretary.

27. Loan companies incorporated otherwise than by Quebec operate in the province only by virtue of a license from the Provincial Secretary (Loan and Investment Societies Act). They are required to sell within 10 years properties acquired through judicial sale or transfer from a borrower.

28. Under the provisions of the Companies Information Act, loan companies are required to make an annual return to the Provincial Secretary covering particulars of incorporations, directors and officers, amount of debenture debt, capital structure, transfer offices etc.



1 New Brunswick

2 29. Loan companies must be incorporated by Special
3 Act. There is no general or special legislation ap-
4 plicable to the incorporation of loan companies. Each
5 company is governed by its own Special Act.

6 30. All loan companies, irrespective of the situs
7 of incorporation, must make an annual return to the
8 Provincial Secretary-Treasurer containing the names of
9 officers and directors, capitalization, capital
10 employed in New Brunswick, etc. Per diem fines are
11 exacted for delay in filing. Effect is the same as
12 registration under Companies Act.

13 Prince Edward Island

14 31. Loan companies may be incorporated under the
15 Companies Act or by Special Act. There are no special
16 provisions governing loan companies, their powers and
17 disabilities.

18 32. All companies doing a loan business must
19 register under the Licensing or Registration Act and
20 make an annual return.

21
22 Nova Scotia

23 33. Loan companies are incorporated by Special
24 Act under the provisions of the Loan Companies Act of
25 the province. This Act is similar to the Federal Loan
26 Companies Act in some respects.

27 34. Deposits and borrowings are limited to 4
28 times unimpaired paid in capital and reserve plus cash
29 on hand or deposit.

30 35. Loan companies are subject to supervision and



1 inspection by a Superintendent. By arrangement in-
2 spection and supervision may be carried out by the
3 Federal Superintendent of Insurance.

4 36. Under the Loan Corporations Act, loan
5 companies other than those with head office in the
6 Province are required to register with the Registrar
7 of Joint Stock Companies and to file a return based on
8 the balance sheet.

9 37. Loan Companies, under the provisions of the
10 Domestic, Dominion and Foreign Corporations Act, are
11 required in order to do business in the Province to
12 obtain a certificate of registration from the Regis-
13 trar and to make an annual return on capitalization,
14 particulars of directors and officers etc.

15 Newfoundland

16 38. Loan companies may be incorporated under the
17 provisions of the Companies Act or by Special Act.
18 There are no provisions respecting the carrying on of
19 the business of a loan company, investment powers or
20 borrowing powers etc.

21 39. All incorporations irrespective of situs
22 must register and make a return under the Companies
23 Act concerning capitalization names of directors and
24 officers etc., as a condition of being allowed to do
25 business in the province.
26
27
28
29
30



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Toronto, Ontario

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Appendix 4
Part 1

Loan Companies
Registered in Ontario

| (\$ million) | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 |
|--|------------|------------|------------|------------|------------|------------|------------|
| <u>Assets</u> | | | | | | | |
| Cash in Hand and Banks | 10 | 13 | 9 | 10 | 8 | 10 | 9 |
| Short Term Securities - 1 yr. or less | 8 | 6 | - | - | - | - | - |
| Government Bonds | 41 | 35 | 37 | 33 | 31 | 42 | 45 |
| Provincial Bonds | 8 | 9 | 10 | 6 | 5 | 8 | 5 |
| Municipal Bonds | 5 | 5 | 5 | 3 | 4 | 5 | 4 |
| Corporation and Other Bonds | 12 | 8 | 12 | 5 | 3 | 3 | 4 |
| Collateral Loans | 1 | 2 | 1 | 4 | 3 | 2 | 2 |
| Corporation Stocks | 26 | 25 | 22 | 19 | 18 | 16 | 13 |
| Sundry | 1 | 1 | 2 | 1 | 1 | 3 | 1 |
| Office Premises | 11 | 11 | 9 | 9 | 8 | 6 | 6 |
| Mortgages | 471 | 416 | 373 | 340 | 325 | 294 | 264 |
| Real Estate for Sale | <u>1</u> | <u>1</u> | <u>2</u> | <u>2</u> | <u>2</u> | <u>2</u> | <u>2</u> |
| Total | <u>593</u> | <u>532</u> | <u>482</u> | <u>432</u> | <u>408</u> | <u>391</u> | <u>355</u> |
| <u>Liabilities</u> | | | | | | | |
| Debentures and Accrued Interest | 363 | 320 | 257 | 234 | 210 | 191 | 175 |
| Deposits and Accrued Interest | 135 | 126 | 139 | 120 | 117 | 122 | 108 |
| Short Term Notes | 6 | 3 | 3 | - | 5 | 5 | 1 |
| Borrowed Money | 1 | 1 | 1 | - | - | - | 1 |
| All Other | <u>4</u> | <u>1</u> | <u>1</u> | <u>3</u> | <u>4</u> | <u>4</u> | <u>4</u> |
| | 509 | 451 | 401 | 357 | 336 | 322 | 289 |
| Paid in Capital | 32 | 30 | 30 | 29 | 29 | 28 | 28 |
| Surplus and Reserves | <u>52</u> | <u>51</u> | <u>51</u> | <u>46</u> | <u>43</u> | <u>41</u> | <u>38</u> |
| Total | <u>593</u> | <u>532</u> | <u>482</u> | <u>432</u> | <u>408</u> | <u>391</u> | <u>355</u> |

Appendix 4
Part 2

Loan Companies

Registered in Ontario

(\$ million)

1953 1952 1951 1945 1938 1933 1928Assets

| | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Cash in Hand and Banks | 9 | 10 | 13 | 7 | 6 | 6 | 5 |
| Short Term Securities - 1 yr. or less | - | - | - | - | - | - | - |
| Government Bonds | 34 | 36 | 38 | 57 | 13 | 9 | 8 |
| Provincial Bonds | 3 | 4 | 4 | 7 | - | 2 | 2 |
| Municipal Bonds | 2 | 3 | 2 | 3 | 4 | 4 | 4 |
| Corporation and Other Bonds | 1 | 2 | - | 3 | 2 | 6 | 8 |
| Collateral Loans | 2 | 2 | 1 | - | - | - | 6 |
| Corporation Stocks | 11 | 12 | 12 | 13 | 10 | 10 | 10 |
| Sundry | 1 | 1 | - | 2 | 1 | 2 | - |
| Office Premises | 7 | 6 | 6 | 6 | 7 | 8 | 4 |
| Mortgages | 237 | 218 | 206 | 113 | 153 | 174 | 179 |
| Real Estate for Sale | <u>2</u> | <u>2</u> | <u>2</u> | <u>3</u> | <u>11</u> | <u>6</u> | <u>4</u> |
| Total | <u>309</u> | <u>296</u> | <u>284</u> | <u>214</u> | <u>207</u> | <u>227</u> | <u>230</u> |

Liabilities

| | | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Debentures and Accrued Interest | 149 | 138 | 132 | 92 | 105 | 114 | 104 |
| Deposits and Accrued Interest | 93 | 91 | 87 | 52 | 34 | 31 | 39 |
| Short Term Notes | - | 1 | - | - | - | - | - |
| Borrowed Money | 1 | - | 1 | - | - | - | - |
| All Other | <u>5</u> | <u>7</u> | <u>6</u> | <u>10</u> | <u>7</u> | <u>18</u> | <u>4</u> |
| | 248 | 237 | 226 | 154 | 146 | 163 | 147 |
| Paid in Capital | 28 | 27 | 27 | 32 | 34 | 36 | 39 |
| Surplus and Reserves | <u>33</u> | <u>32</u> | <u>31</u> | <u>28</u> | <u>27</u> | <u>28</u> | <u>44</u> |
| Total | <u>309</u> | <u>296</u> | <u>284</u> | <u>214</u> | <u>207</u> | <u>227</u> | <u>230</u> |



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Toronto, Ontario

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Appendix 4a
Part 1

Loan Companies

Registered in Ontario

(Percentage to Total)

1960 1959 1958 1957 1956 1955 1954

Assets

Cash in Hand and Banks 1.6 2.4 1.9 2.3 2.0 2.6 2.5

Short Term Securities -
1 yr. or less 1.3 1.1 - - - -

Government Bonds 6.9 6.6 7.7 7.6 7.6 10.7 12.7

Provincial Bonds 1.3 1.7 2.1 1.4 1.2 2.0 1.4

Municipal Bonds .8 .9 1.0 .7 1.0 1.3 1.1

Corporation and Other Bonds 2.0 1.5 2.5 1.2 .7 .8 1.1

Collateral Loans .2 .4 .2 .9 .7 .5 .6

Corporation Stocks 4.3 4.7 4.6 4.4 4.4 4.1 3.7

Sundry .2 .2 .2 .2 .2 .8 .3

Office Premises 1.8 2.0 1.9 2.1 2.0 1.5 1.7

Mortgages 79.4 78.3 77.5 78.7 79.7 75.2 74.3

Real Estate for Sale .2 .2 .4 .5 .5 .5 .6

100.0 100.0 100.0 100.0 100.0 100.0 100.0

Liabilities

Debentures and Accrued Interest 61.2 60.2 53.4 54.1 51.5 48.9 49.3

Deposits and Accrued Interest 22.8 23.7 28.8 27.8 28.7 31.2 30.4

Short Term Notes 1.0 .6 .6 - 1.2 1.3 .3

Borrowed Money .2 .2 .2 - - - .3

All Other .7 .2 .2 .7 1.0 1.0 1.1

85.9 84.9 83.2 82.6 82.4 82.4 81.4

Paid in Capital 5.4 5.6 6.2 6.7 7.1 7.2 7.9

Surplus and Reserves 8.7 9.5 10.6 10.7 10.5 10.4 10.7

100.0 100.0 100.0 100.0 100.0 100.0 100.0

Financial Statement

Statement of Assets and Liabilities

(For the year ended 31st March 1955)

| | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 | 1946 | 1945 |
|-------------------|------|------|------|------|------|------|------|------|------|------|
| Fixed Assets | 1.6 | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 |
| Current Assets | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 |
| Liabilities | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 | 0.0 |
| Capital | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 |
| Reserves | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 2.8 | 2.6 | 2.4 | 2.2 | 2.0 | 1.8 | 1.6 | 1.4 | 1.2 | 1.0 |



Appendix 4a
Part 2

Loan Companies

Registered in Ontario

[illegible]



Appendix 5

Loan Companies Registered in Ontario

Liquidity Provision

As described in paragraph 40.

| <u>Amount</u> <u>\$ Million</u> | | <u>Liquid Securities</u> | | | | |
|---------------------------------|-----------------|--------------------------|--|--|-------------------------|--|
| <u>Dec. 31</u> | <u>Deposits</u> | <u>Cash</u> | <u>Dominion or Provincial Securities</u> | <u>Canadian City & Ont. Municipal Securities</u> | <u>Demand Loans</u> | <u>Total Liquid Securities</u> |
| 1960 | 134.9 | 9.9 | 48.8 | 4.4 | 0.2 | 63.3 |
| 1959 | 122.7 | 11.7 | 44.2 | 4.5 | 1.5 | 61.9 |
| 1958 | 135.8 | 8.4 | 46.1 | 4.9 | 0.2 | 59.6 |
| 1957 | 115.9 | 9.5 | 38.7 | 3.3 | 0.2 | 51.7 |
| 1956 | 117.1 | 7.9 | 36.4 | 3.6 | 0.1 | 48.0 |
| 1955 | 122.0 | 9.5 | 49.0 | 4.8 | 0.1 | 63.4 |
| 1954 | 107.8 | 8.9 | 49.4 | 2.8 | 0.1 | 61.3 |
| 1953 | 92.6 | 8.0 | 36.6 | 1.4 | 0.2 | 46.2 |
| 1952 | 91.3 | 8.1 | 39.0 | 2.1 | 0.1 | 49.4 |
| 1951 | 86.8 | 8.8 | 39.3 | 1.6 | - | 49.7 |
| <u>Percentage</u> | | | | | | |
| 1960 | - | 7.3 | 36.2 | 3.3 | .1 | 46.9 |
| 1959 | - | 9.5 | 36.0 | 3.7 | 1.2 | 50.4 |
| 1958 | - | 6.2 | 33.9 | 3.6 | .1 | 43.9 |
| 1957 | - | 8.2 | 33.4 | 2.8 | .2 | 44.6 |
| 1956 | - | 6.7 | 31.1 | 3.1 | .1 | 41.0 |
| 1955 | - | 7.8 | 40.2 | 3.9 | .1 | 52.0 |
| 1954 | - | 8.3 | 45.8 | 2.6 | .1 | 56.9 |
| 1953 | - | 8.6 | 39.5 | 1.5 | - | 49.8 |
| 1952 | - | 8.9 | 42.7 | 2.3 | - | 54.1 |
| 1951 | - | 10.1 | 45.3 | 1.8 | - | 57.2 |



Appendix 2

Iron Companies Registered in Ontario
Provisional

As described in paragraph No. 1

Legal Provision

| Dec. 31 | Deposits | Provisional Registration | Corporation Act, 1890 | Amount |
|---------|----------|-----------------------------|--------------------------|--------|
| 1900 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1901 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1902 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1903 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1904 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1905 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1906 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1907 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1908 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1909 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1910 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1911 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1912 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1913 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1914 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1915 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1916 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1917 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1918 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1919 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1920 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1921 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1922 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1923 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1924 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1925 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1926 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1927 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1928 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1929 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1930 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1931 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1932 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1933 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1934 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1935 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1936 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1937 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1938 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1939 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1940 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1941 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1942 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1943 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1944 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1945 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1946 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1947 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1948 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1949 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1950 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1951 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1952 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1953 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1954 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1955 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1956 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1957 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1958 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1959 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1960 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1961 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1962 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1963 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1964 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1965 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1966 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1967 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1968 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1969 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1970 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1971 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1972 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1973 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1974 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1975 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1976 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1977 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1978 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1979 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1980 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1981 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1982 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1983 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1984 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1985 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1986 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1987 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1988 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1989 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1990 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1991 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1992 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1993 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1994 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1995 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1996 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1997 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1998 | 134.9 | 48.8 | 4.8 | 1.2 |
| 1999 | 134.9 | 48.8 | 4.8 | 1.2 |
| 2000 | 134.9 | 48.8 | 4.8 | 1.2 |



Nethercut & Young

Toronto, Ontario

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Appendix 5

Number of Loan Companies Registered in Ontario
with the following percentages of liquid
assets to deposit liability

| <u>Dec. 31</u> | <u>Below 20%</u> | <u>20% to 35%</u> | <u>35% to 45%</u> | <u>Above 45%</u> | <u>Number of Loan Companies</u> |
|----------------|------------------|-------------------|-------------------|------------------|---|
| 1960 | - | - | 1 | 4 | 5 |
| 1959 | - | - | 1 | 4 | 5 |
| 1958 | - | 1 | - | 5 | 6 |
| 1957 | - | - | 1 | 5 | 6 |
| 1956 | - | 1 | - | 5 | 6 |
| 1955 | - | - | - | 6 | 6 |
| 1954 | - | - | - | 6 | 6 |
| 1953 | - | - | 1 | 5 | 6 |
| 1952 | - | - | - | 6 | 6 |
| 1951 | - | - | - | 6 | 6 |



2. 1947

Report of the Committee on the Administration of the Government of the District of Columbia

for the year ending June 30, 1947

Submitted to the Board of Commissioners

Report of the
Committee on the
Administration of the
Government of the
District of Columbia

| Page | Chapter | Section | Subsection | Item | Amount | Balance | Total |
|------|---------|---------|------------|------|--------|---------|--------|
| 1 | 1 | 1 | 1 | 1 | 100.00 | 100.00 | 100.00 |
| 2 | 1 | 2 | 1 | 2 | 100.00 | 100.00 | 100.00 |
| 3 | 1 | 3 | 1 | 3 | 100.00 | 100.00 | 100.00 |
| 4 | 1 | 4 | 1 | 4 | 100.00 | 100.00 | 100.00 |
| 5 | 1 | 5 | 1 | 5 | 100.00 | 100.00 | 100.00 |
| 6 | 1 | 6 | 1 | 6 | 100.00 | 100.00 | 100.00 |
| 7 | 1 | 7 | 1 | 7 | 100.00 | 100.00 | 100.00 |
| 8 | 1 | 8 | 1 | 8 | 100.00 | 100.00 | 100.00 |
| 9 | 1 | 9 | 1 | 9 | 100.00 | 100.00 | 100.00 |
| 10 | 1 | 10 | 1 | 10 | 100.00 | 100.00 | 100.00 |
| 11 | 1 | 11 | 1 | 11 | 100.00 | 100.00 | 100.00 |
| 12 | 1 | 12 | 1 | 12 | 100.00 | 100.00 | 100.00 |
| 13 | 1 | 13 | 1 | 13 | 100.00 | 100.00 | 100.00 |
| 14 | 1 | 14 | 1 | 14 | 100.00 | 100.00 | 100.00 |
| 15 | 1 | 15 | 1 | 15 | 100.00 | 100.00 | 100.00 |
| 16 | 1 | 16 | 1 | 16 | 100.00 | 100.00 | 100.00 |
| 17 | 1 | 17 | 1 | 17 | 100.00 | 100.00 | 100.00 |
| 18 | 1 | 18 | 1 | 18 | 100.00 | 100.00 | 100.00 |
| 19 | 1 | 19 | 1 | 19 | 100.00 | 100.00 | 100.00 |
| 20 | 1 | 20 | 1 | 20 | 100.00 | 100.00 | 100.00 |
| 21 | 1 | 21 | 1 | 21 | 100.00 | 100.00 | 100.00 |
| 22 | 1 | 22 | 1 | 22 | 100.00 | 100.00 | 100.00 |
| 23 | 1 | 23 | 1 | 23 | 100.00 | 100.00 | 100.00 |
| 24 | 1 | 24 | 1 | 24 | 100.00 | 100.00 | 100.00 |
| 25 | 1 | 25 | 1 | 25 | 100.00 | 100.00 | 100.00 |
| 26 | 1 | 26 | 1 | 26 | 100.00 | 100.00 | 100.00 |
| 27 | 1 | 27 | 1 | 27 | 100.00 | 100.00 | 100.00 |
| 28 | 1 | 28 | 1 | 28 | 100.00 | 100.00 | 100.00 |
| 29 | 1 | 29 | 1 | 29 | 100.00 | 100.00 | 100.00 |
| 30 | 1 | 30 | 1 | 30 | 100.00 | 100.00 | 100.00 |
| 31 | 1 | 31 | 1 | 31 | 100.00 | 100.00 | 100.00 |
| 32 | 1 | 32 | 1 | 32 | 100.00 | 100.00 | 100.00 |
| 33 | 1 | 33 | 1 | 33 | 100.00 | 100.00 | 100.00 |
| 34 | 1 | 34 | 1 | 34 | 100.00 | 100.00 | 100.00 |
| 35 | 1 | 35 | 1 | 35 | 100.00 | 100.00 | 100.00 |
| 36 | 1 | 36 | 1 | 36 | 100.00 | 100.00 | 100.00 |
| 37 | 1 | 37 | 1 | 37 | 100.00 | 100.00 | 100.00 |
| 38 | 1 | 38 | 1 | 38 | 100.00 | 100.00 | 100.00 |
| 39 | 1 | 39 | 1 | 39 | 100.00 | 100.00 | 100.00 |
| 40 | 1 | 40 | 1 | 40 | 100.00 | 100.00 | 100.00 |
| 41 | 1 | 41 | 1 | 41 | 100.00 | 100.00 | 100.00 |
| 42 | 1 | 42 | 1 | 42 | 100.00 | 100.00 | 100.00 |
| 43 | 1 | 43 | 1 | 43 | 100.00 | 100.00 | 100.00 |
| 44 | 1 | 44 | 1 | 44 | 100.00 | 100.00 | 100.00 |
| 45 | 1 | 45 | 1 | 45 | 100.00 | 100.00 | 100.00 |
| 46 | 1 | 46 | 1 | 46 | 100.00 | 100.00 | 100.00 |
| 47 | 1 | 47 | 1 | 47 | 100.00 | 100.00 | 100.00 |
| 48 | 1 | 48 | 1 | 48 | 100.00 | 100.00 | 100.00 |
| 49 | 1 | 49 | 1 | 49 | 100.00 | 100.00 | 100.00 |
| 50 | 1 | 50 | 1 | 50 | 100.00 | 100.00 | 100.00 |
| 51 | 1 | 51 | 1 | 51 | 100.00 | 100.00 | 100.00 |
| 52 | 1 | 52 | 1 | 52 | 100.00 | 100.00 | 100.00 |
| 53 | 1 | 53 | 1 | 53 | 100.00 | 100.00 | 100.00 |
| 54 | 1 | 54 | 1 | 54 | 100.00 | 100.00 | 100.00 |
| 55 | 1 | 55 | 1 | 55 | 100.00 | 100.00 | 100.00 |
| 56 | 1 | 56 | 1 | 56 | 100.00 | 100.00 | 100.00 |
| 57 | 1 | 57 | 1 | 57 | 100.00 | 100.00 | 100.00 |
| 58 | 1 | 58 | 1 | 58 | 100.00 | 100.00 | 100.00 |
| 59 | 1 | 59 | 1 | 59 | 100.00 | 100.00 | 100.00 |
| 60 | 1 | 60 | 1 | 60 | 100.00 | 100.00 | 100.00 |
| 61 | 1 | 61 | 1 | 61 | 100.00 | 100.00 | 100.00 |
| 62 | 1 | 62 | 1 | 62 | 100.00 | 100.00 | 100.00 |
| 63 | 1 | 63 | 1 | 63 | 100.00 | 100.00 | 100.00 |
| 64 | 1 | 64 | 1 | 64 | 100.00 | 100.00 | 100.00 |
| 65 | 1 | 65 | 1 | 65 | 100.00 | 100.00 | 100.00 |
| 66 | 1 | 66 | 1 | 66 | 100.00 | 100.00 | 100.00 |
| 67 | 1 | 67 | 1 | 67 | 100.00 | 100.00 | 100.00 |
| 68 | 1 | 68 | 1 | 68 | 100.00 | 100.00 | 100.00 |
| 69 | 1 | 69 | 1 | 69 | 100.00 | 100.00 | 100.00 |
| 70 | 1 | 70 | 1 | 70 | 100.00 | 100.00 | 100.00 |
| 71 | 1 | 71 | 1 | 71 | 100.00 | 100.00 | 100.00 |
| 72 | 1 | 72 | 1 | 72 | 100.00 | 100.00 | 100.00 |
| 73 | 1 | 73 | 1 | 73 | 100.00 | 100.00 | 100.00 |
| 74 | 1 | 74 | 1 | 74 | 100.00 | 100.00 | 100.00 |
| 75 | 1 | 75 | 1 | 75 | 100.00 | 100.00 | 100.00 |
| 76 | 1 | 76 | 1 | 76 | 100.00 | 100.00 | 100.00 |
| 77 | 1 | 77 | 1 | 77 | 100.00 | 100.00 | 100.00 |
| 78 | 1 | 78 | 1 | 78 | 100.00 | 100.00 | 100.00 |
| 79 | 1 | 79 | 1 | 79 | 100.00 | 100.00 | 100.00 |
| 80 | 1 | 80 | 1 | 80 | 100.00 | 100.00 | 100.00 |
| 81 | 1 | 81 | 1 | 81 | 100.00 | 100.00 | 100.00 |
| 82 | 1 | 82 | 1 | 82 | 100.00 | 100.00 | 100.00 |
| 83 | 1 | 83 | 1 | 83 | 100.00 | 100.00 | 100.00 |
| 84 | 1 | 84 | 1 | 84 | 100.00 | 100.00 | 100.00 |
| 85 | 1 | 85 | 1 | 85 | 100.00 | 100.00 | 100.00 |
| 86 | 1 | 86 | 1 | 86 | 100.00 | 100.00 | 100.00 |
| 87 | 1 | 87 | 1 | 87 | 100.00 | 100.00 | 100.00 |
| 88 | 1 | 88 | 1 | 88 | 100.00 | 100.00 | 100.00 |
| 89 | 1 | 89 | 1 | 89 | 100.00 | 100.00 | 100.00 |
| 90 | 1 | 90 | 1 | 90 | 100.00 | 100.00 | 100.00 |
| 91 | 1 | 91 | 1 | 91 | 100.00 | 100.00 | 100.00 |
| 92 | 1 | 92 | 1 | 92 | 100.00 | 100.00 | 100.00 |
| 93 | 1 | 93 | 1 | 93 | 100.00 | 100.00 | 100.00 |
| 94 | 1 | 94 | 1 | 94 | 100.00 | 100.00 | 100.00 |
| 95 | 1 | 95 | 1 | 95 | 100.00 | 100.00 | 100.00 |
| 96 | 1 | 96 | 1 | 96 | 100.00 | 100.00 | 100.00 |
| 97 | 1 | 97 | 1 | 97 | 100.00 | 100.00 | 100.00 |
| 98 | 1 | 98 | 1 | 98 | 100.00 | 100.00 | 100.00 |
| 99 | 1 | 99 | 1 | 99 | 100.00 | 100.00 | 100.00 |
| 100 | 1 | 100 | 1 | 100 | 100.00 | 100.00 | 100.00 |



Loan Companies

Investment and Loan Powers

1. The investment and loan powers of loan companies incorporated by Parliament are contained in the Loan Companies Act, Canada. Those of loan companies incorporated by Ontario and those of loan companies registered to do business in Ontario are contained in The Loan and Trust Corporations Act, Ontario. While the provisions of these two acts are very similar, there are some differences and it can be said that the Federal act is more restrictive. Accordingly, the investment provisions of the Loan Companies Act, Canada are set out below with appropriate notations dealing with the more important differences.

Investment Powers

a. Securities of or guaranteed by Canada, its Provinces, the United Kingdom or a colony or dependency thereof, the United States or a state thereof, the International Bank for Reconstruction and Development, any municipal or school corporation in Canada, or secured by rates or taxes levied under authority of a Canadian province on property situated in such province and collectable by municipalities in which the property is situated.

Ontario also authorizes securities of



- 1 or guaranteed by other foreign countries,
2 if interest on their securities has been
3 paid regularly for the previous 10 years.
- 4 b. Securities of any company incorporated by
5 Canada or any of its provinces that are
6 secured by a mortgage to trustees or a
7 trust corporation upon improved real estate
8 of such company or other assets of the
9 classes mentioned in (a) above.
- 10 c. Securities, secured and unsecured, of a
11 company incorporated by Canada or any of
12 its provinces where such company has
13 earned and paid regular cash dividends of
14 not less than 4 per cent per annum on its
15 issued stock for a term of at least 5
16 years immediately preceding the date of
17 investment in such securities.

18 Ontario does not limit to companies in-
19 corporated in Canada. It makes eligible
20 such securities if they do not qualify
21 where they are guaranteed by another
22 company, if that company qualifies and if
23 the amount guaranteed does not exceed 50
24 per cent of the guaranteeing company's
25 preferred or common stock.

- 26 d. Preferred stocks of any company incor-
27 porated by Canada, or any of its
28 provinces that has paid regular dividends
29 upon such stocks or upon its common stocks
30



1 for not less than 5 years immediately
2 preceding the purchase of such preferred
3 stocks, or the stocks of any such company
4 that are guaranteed by a company so in-
5 corporated that has paid regular dividends
6 upon its preferred or common stocks for
7 not less than 5 years immediately preceding
8 purchase of such guaranteed stocks if the
9 amount of stocks so guaranteed is not in
10 excess of 50 per cent of the amount of the
11 preferred or common stocks, as the case
12 may be, of the guaranteeing company.

13 Ontario does not recognize guaranteed
14 preferred stocks. Does not limit to
15 companies incorporated in Canada.

- 16 e. Fully paid common stocks of any company
17 incorporated by Canada or any of its
18 provinces or any chartered bank in Canada
19 which, in each year of a period of 7 years
20 ended less than one year before the date
21 of investment, has paid a dividend upon
22 its common shares of at least 4 per cent
23 of the average value at which the shares
24 were carried in the capital stock account
25 of such company or bank during the year
26 in which the dividend was paid.

27
28 Ontario does not limit to companies
29 incorporated in Canada.

- 30 f. Mortgages or hypothecs on real estate or



1 leaseholds in Canada, or elsewhere where
2 the company is carrying on business, but
3 the amount paid for the mortgage or
4 hypothec, together with the amount of
5 indebtedness ranking superior, shall not
6 exceed two-thirds of the value of the
7 real estate or leasehold.

8 g. Mortgages insured under the National Housing
9 Act, 1954, and other classes of investment
10 allowed by that Act, the latter being
11 limited to 5 per cent of the company's
12 total funds.

13 h. Real estate in Canada for the production
14 of income if a lease of the real estate
15 is made to or guaranteed by a corporation
16 whose preferred or common stocks would
17 qualify for investment; and where the
18 lease provides for a net revenue suffici-
19 ent to pay a reasonable rate of interest
20 and to repay at least 85 per cent of the
21 amount invested within a period not ex-
22 ceeding 30 years.

23 The total investment of the loan company
24 in any one parcel of real estate is
25 limited to 1 per cent of the book value
26 of the loan company's total funds. The
27 total that may be invested in such real
28 estate is limited to 5 per cent of the
29 loan company's total funds.

30 1. Investments and loans not otherwise



1 authorized so long as book value of
2 investments and loans so made and held by
3 the company, excluding those that are or
4 have become eligible apart from this
5 provision, do not exceed 15 per cent of
6 the company's unimpaired paid up capital
7 and reserve. This provision does not
8 enlarge the power to invest or lend on the
9 security of real estate, mortgages, charges
10 and hypothecs.

11 j. Ontario permits investment in securities
12 subsidized by Canada or any of its
13 provinces.

14 k. Ontario permits investment in equipment
15 trust certificates of a railway or high-
16 way transportation company in Canada.

17 l. Ontario permits investment in the as-
18 signment of life insurance policies with
19 cash surrender value admitted by the
20 insurer.

21 Loan Powers

22 m. Securities mentioned in (a) and (b) above.

23 Ontario permits loans on the security
24 of life insurance policies with cash sur-
25 render values admitted by the insurer
26 and securities of foreign countries as
27 noted in (a) above.

28 n. Securities of any company incorporated in
29 Canada, other than those described in (b)
30



1 above, if the market value of the
2 securities on which the loan is made
3 exceeds the amount of the loan by at
4 least 20 per cent of such market value,
5 or 20 per cent of the par value which-
6 ever is less but the amount loaned on the
7 security of the stocks of any such
8 company shall not exceed 25 per cent of
9 the market value of the total stocks of
10 such company.

11 Ontario does not limit to companies in-
12 corporated in Canada. The amount loaned on
13 the security of stocks is limited to 10
14 per cent of the market value of total
15 stocks of such company.

16 o. Real estate or leaseholds in Canada or
17 elsewhere where the company is doing
18 business subject to the same two-thirds
19 per cent limitation as obtains for in-
20 vestment in mortgages.

21 In addition to the limitations included
22 in the above description, other limi-
23 tations and prohibitions also apply:-

24 p. The total book value of a company's in-
25 vestment in common stocks may not exceed
26 15 per cent of the book value of the
27 loan company's total funds, where such
28 loan company receives money on deposit or
29 borrows by the issue of bonds, debentures
30



1 or other securities. Not more than 30
2 per cent of the common stocks and not
3 more than 30 per cent of the total issue
4 of the stocks of any company or bank may
5 be purchased by a loan company. Does not
6 apply to stock of a trust company where at
7 least 50 per cent of the stock was held on
8 June 28, 1922.

9 Ontario has no provision comparable to
10 this 15 per cent. See provision re stocks
11 of any one company.

12 q. A loan company's investment in or upon the
13 security of the debentures, bonds, stocks
14 and other securities of a company may not
15 exceed 20 per cent of the debentures, bonds,
16 stock or other securities issued by such
17 company.

18 Ontario. No investment the effect of
19 which will be that the loan company will
20 hold more than 20 per cent of the stock
21 or more than 20 per cent of the debentures
22 of any one corporation, company or bank.
23 This applies since April 14, 1925.

24 r. A loan company may not lend any of its
25 funds on the security of vacant land not
26 used for agricultural purposes.

27 Ontario permits investments in and
28 loans on improved real estate only.
29
30



or other securities, not more than 50
 per cent of the common stock and not
 more than 25 per cent of the total assets
 of the assets of any company or group may
 be represented by a loan company. These may
 apply to stock of a trust company where the
 loan 50 per cent of the stock was held on
 June 30, 1934.

Article has no provision comparable to
 this in per cent. See provision to stocks
 of any one company.
 A loan company investment in or upon the
 security of the debentures, bonds, stocks
 and other securities of a company may not
 exceed 50 per cent of the debentures, bonds,
 stock or other securities owned by such
 company.

Article. To invest in the stock of
 which will be that the loan company will
 not have more than 10 per cent of the stock
 or more than 10 per cent of the resources
 of any one company or company or group.
 This article since April 14, 1934.
 A loan company may not own any of the
 funds or the amount of vacant land and not
 used for agricultural purposes.
 Article. To invest in the
 funds or the amount of vacant land and not



s. No loans may be made by a loan company to any of its directors, or to the wife or any of its directors.

Ontario applies this prohibition to auditors as well.

t. A loan company may not lend or advance money upon the security of its own shares or upon the security of the shares of any other loan company.

Ontario. See Note under (q).

u. A loan company may not lend upon the security of or purchase or invest in bills of exchange or promissory notes.

Ontario does not deal specifically with this.

v. Not more than 35 per cent of a loan company's unimpaired capital and reserve may be laid out or expended in respect of real and immovable property as is necessary for its actual use and occupation and the management of its business.

w. Real estate acquired by foreclosure or otherwise consequent upon a loan or investment by way of mortgage or hypothec must be disposed of within 12 years from the date of acquisition under penalty of forfeiture.

x. Ontario. After April 14, 1925 no loan



1 company may invest in any one security
2 more than 15 per cent of its own paid in
3 capital stock and reserve or make a total
4 investment in any one company maturing in
5 more than 1 year of an amount exceeding
6 15 per cent of its own paid in capital
7 and reserve. In respect of an investment
8 maturing in 1 year or less, the limit is
9 20 per cent of its own paid in capital and
10 reserve plus 5 per cent of moneys borrowed
11 on debentures and by way of deposits.

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company may invest in any one security more than 10 per cent of its own paid in capital and reserve or make a total investment in any one company exceeding more than 1 year of its amount exceeding 10 per cent of its own paid in capital and reserve. In respect of an investment maturing in 1 year or less, the limit is 50 per cent of its own paid in capital and reserve plus 5 per cent of money borrowed on debentures and by way of discount.



Appendix 7
Part 1

Loan Companies Registered in Ontario

| (\$ Thousand) | <u>1960</u> | <u>1959</u> | <u>1958</u> | <u>1957</u> | <u>1956</u> | <u>1955</u> | <u>1954</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>Income</u> | | | | | | | |
| Interest on Mortgages | 31,204 | 27,243 | 23,887 | 22,119 | 19,869 | 17,516 | 15,321 |
| Collateral Loans | 152 | 97 | 60 | 22 | 18 | 29 | 15 |
| Bonds & Debentures | 3,105 | 2,587 | 2,345 | 1,572 | 1,784 | 1,981 | 1,733 |
| Bank Deposits | 6 | 84 | 6 | 1 | 7 | 7 | 8 |
| Others | 315 | 221 | 106 | 137 | 94 | 88 | 92 |
| Dividends | <u>1,471</u> | <u>1,273</u> | <u>992</u> | <u>924</u> | <u>904</u> | <u>775</u> | <u>630</u> |
| | 36,253 | 31,505 | 27,396 | 24,775 | 22,676 | 20,396 | 17,799 |
| Rents Earned Net | 953 | 995 | 1,127 | 974 | 1,018 | 948 | 994 |
| Agency Fees & Commissions | 82 | 317 | 303 | 55 | 62 | 59 | 56 |
| Sundry Revenue | 337 | 285 | 344 | 196 | 128 | 130 | 63 |
| Profit on Sale - Securities & Real Estate | <u>853</u> | <u>350</u> | <u>313</u> | <u>341</u> | <u>214</u> | <u>604</u> | <u>543</u> |
| | <u>38,478</u> | <u>33,452</u> | <u>29,483</u> | <u>26,341</u> | <u>24,098</u> | <u>22,137</u> | <u>19,455</u> |
| <u>Expenditure</u> | | | | | | | |
| Interest on Debentures | 16,607 | 12,610 | 10,309 | 8,459 | 7,427 | 6,607 | 5,905 |
| Deposits | 3,283 | 3,555 | 3,340 | 3,165 | 2,743 | 2,502 | 1,977 |
| Others | <u>249</u> | <u>28</u> | <u>11</u> | <u>10</u> | <u>11</u> | <u>10</u> | <u>3</u> |
| | 20,139 | 16,193 | 13,660 | 11,634 | 10,181 | 9,119 | 7,885 |
| Licenses & Corporation Tax | 140 | 126 | 126 | 124 | 113 | 126 | 154 |
| All Others | 7,247 | 6,716 | 6,106 | 5,246 | 4,950 | 4,742 | 4,459 |
| Transfers to Investment Reserves | 1,098 | 1,424 | 48 | 611 | 769 | 650 | 454 |
| Assets Written Down | 655 | 234 | 210 | 232 | 202 | 160 | 151 |
| Loss on Sale - Securities & Real Estate | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>29,279</u> | <u>24,693</u> | <u>20,150</u> | <u>17,847</u> | <u>16,215</u> | <u>14,797</u> | <u>13,103</u> |
| Profit before Income Tax | 9,199 | 8,759 | 9,333 | 8,494 | 7,883 | 7,340 | 6,352 |
| Income Tax | <u>4,369</u> | <u>4,138</u> | <u>3,710</u> | <u>3,542</u> | <u>3,232</u> | <u>3,198</u> | <u>3,053</u> |
| Profit after Income Tax | <u>4,830</u> | <u>4,621</u> | <u>5,623</u> | <u>4,952</u> | <u>4,651</u> | <u>4,142</u> | <u>3,299</u> |



Appendix 7
Part 2

Loan Companies Registered in Ontario

| (\$ Thousand) | <u>1953</u> | <u>1952</u> | <u>1951</u> | <u>1945</u> | <u>1938</u> | <u>1933</u> | <u>1928</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <u>Income</u> | | | | | | | |
| Interest on Mortgages | 13,325 | 12,049 | 11,123 | 6,546 | 8,380 | 11,356 | 11,938 |
| Collateral Loan | 15 | 15 | 13 | 14 | 20 | 40 | 376 |
| Bonds & Debentures | 1,434 | 1,490 | 1,415 | 1,945 | 828 | 1,113 | 2,058 |
| Bank Deposits | 6 | 10 | 7 | 41 | 26 | 74 | 55 |
| Others | 54 | 43 | 26 | 13 | 9 | 13 | 228 |
| Dividends | <u>594</u> | <u>613</u> | <u>655</u> | <u>711</u> | <u>573</u> | <u>593</u> | <u>-</u> |
| | 15,428 | 14,220 | 13,830 | 9,270 | 9,836 | 13,189 | 14,655 |
| Rents Earned Net | 1,221 | 357 | 333 | 219 | 246 | 381 | 230 |
| Agency Fees & Commissions | 19 | 12 | 9 | 49 | 38 | 39 | 26 |
| Sundry Revenue | 137 | 875 | 690 | 386 | 223 | 235 | 61 |
| Profit on Sale - Securities & Real Estate | <u>137</u> | <u>166</u> | <u>246</u> | <u>487</u> | <u>53</u> | <u>242</u> | <u>-</u> |
| | <u>16,942</u> | <u>15,630</u> | <u>14,517</u> | <u>10,411</u> | <u>10,396</u> | <u>14,086</u> | <u>14,972</u> |
| <u>Expenditure</u> | | | | | | | |
| Interest on Debentures | 4,742 | 4,283 | 3,722 | 3,051 | 3,921 | 5,524 | 4,663 |
| Deposits | 1,494 | 1,426 | 1,451 | 874 | 664 | 1,159 | 1,315 |
| Others | <u>7</u> | <u>8</u> | <u>9</u> | <u>27</u> | <u>4</u> | <u>40</u> | <u>47</u> |
| | 6,243 | 5,717 | 5,182 | 3,952 | 4,589 | 6,723 | 6,025 |
| Licenses & Corporation Tax | 162 | 2,616 | 2,523 | 706 | 273 | 583 | 616 |
| All Others | 4,147 | 3,972 | 3,537 | 2,209 | 1,991 | 2,570 | 2,507 |
| Transfers to Investment Reserves | 353 | 313 | 272 | 945 | 1,194 | 982 | 442 |
| Assets Written Down | 164 | 263 | 304 | 347 | 198 | 329 | - |
| Loss on Sale - Securities & Real Estate | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>47</u> |
| | <u>11,069</u> | <u>12,881</u> | <u>11,818</u> | <u>8,159</u> | <u>8,245</u> | <u>11,187</u> | <u>9,637</u> |
| Profit before Income Tax | 5,873 | N. A. | N. A. | N. A. | N. A. | N. A. | N. A. |
| Income Tax | <u>2,613</u> | <u>N. A.</u> | <u>N. A.</u> | <u>N. A.</u> | <u>N. A.</u> | <u>N. A.</u> | <u>N. A.</u> |
| Profit after Income Tax | <u>3,260</u> | <u>2,749</u> | <u>2,699</u> | <u>2,252</u> | <u>2,151</u> | <u>2,822</u> | <u>5,335</u> |



Appendix 8

Loan Companies in Mortgage Field

1. The relation of the gross mortgage loan approval granted by the loan companies is exemplified by the experience of those companies who are members of the Association.

| (\$ Million) | A Total Approvals | B Loan Company Approvals | Percentage B to A | C Approvals less Government | Percentage B to C |
|--------------|-------------------------|-----------------------------------|----------------------|--------------------------------------|----------------------|
| 1960 | 1,201 | 167 | 13.9 | 1,033 | 16.2 |
| 1959 | 1,450 | 117 | 8.1 | 1,083 | 10.8 |
| 1958 | 1,581 | 133 | 8.4 | 1,191 | 11.2 |
| 1957 | 1,006 | 76 | 7.6 | 770 | 9.9 |
| 1956 | 1,018 | 84 | 8.3 | 998 | 8.4 |
| 1955 | 1,213 | 91 | 7.5 | 1,195 | 7.6 |
| 1954 | 931 | 76 | 8.2 | 886 | 8.6 |
| 1953 | 639 | 56 | 8.8 | 581 | 9.6 |
| 1952 | 551 | 55 | 10.0 | 503 | 10.9 |
| 1951 | 447 | 43 | 9.6 | 435 | 9.9 |
| 1950 | 548 | 53 | 9.7 | 523 | 10.1 |
| 1949 | <u>433</u> | <u>46</u> | <u>10.6</u> | <u>394</u> | <u>11.7</u> |
| Total | <u>11,018</u> | <u>997</u> | <u>9.0</u> | <u>9,592</u> | <u>10.4</u> |

A. Approvals by life, loan, trust and other lenders including banks, savings banks, certain investment companies and Central Mortgage and Housing Corporation. Source CMHC includes conventional and National Housing approvals.

B. Loan company members of The Dominion Mortgage and Investments Association.

C. Same as A less Central Mortgage and Housing Corporation.

2. Central Mortgage and Housing Corporation has endeavoured to estimate as closely as possible the amount of mortgage debt (exclusive of bond mortgages) outstanding in Canada. It is felt that there is a considerable margin of error in the result obtained for holdings of "individuals" as opposed to corporate holders and so the study has not been published as yet. While the estimate of holdings by such lenders as insurance, loan and trust companies, banks, savings banks, and certain investment companies may be open to question in that



all such lenders are not included, it is believed that the estimate is reasonably comprehensive and accurate. Accordingly, the following tabulation will be of interest as to the position occupied by loan companies in the mortgage field. It should be noted that, in the following tabulation, ordinarily regarded as "loan" companies.

Mortgage Loans Outstanding Held

by Banks and Certain Other Lending Institutions

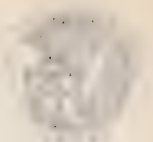
| (\$Million) | <u>Total</u> | <u>By Loan Companies</u> | <u>Per Cent</u> |
|-------------|--------------|--------------------------|-----------------|
| 1960 | 5,643 | 495 | 8.8 |
| 1959 | 5,242 | 435 | 8.3 |
| 1958 | 4,657 | 392 | 8.4 |
| 1957 | 4,112 | 358 | 8.7 |
| 1956 | 3,723 | 342 | 9.2 |
| 1955 | 3,025 | 309 | 10.2 |
| 1951 | 1,520 | 216 | 14.2 |
| 1947 | 725 | 141 | 19.4 |
| 1937 | 683 | 160 | 23.4 |
| 1929 | 745 | 186 | 25.0 |
| 1928 | 693 | 184 | 26.6 |
| 1927 | 620 | 178 | 28.7 |
| 1926 | 552 | 165 | 29.9 |

Total includes life, loan and trust companies, chartered banks, savings banks, investment companies and certain investment institutions. Source - University of Western Ontario, School of Business Administration. This is a larger sample than the Association membership of loan companies which at the end of 1960 held mortgages of \$471 million compared with \$405 million as above.



Experience of One Nationally Operating Company
on Mortgage Interest Rates

| <u>Year</u> | <u>1. New Business Accepted</u> | <u>2. Renewed During the Year</u> | <u>1.+2. Accepted and Renewed</u> |
|-------------|---|---|---|
| | % | % | % |
| 1917 | 7.64 | 7.54 | 7.60 |
| 1918 | 7.76 | 7.57 | 7.70 |
| 1919 | 7.51 | 7.53 | 7.51 |
| 1920 | 8.07 | 7.83 | 7.89 |
| 1921 | 8.35 | 8.17 | 8.29 |
| 1922 | 8.07 | 8.09 | 8.07 |
| 1923 | 7.72 | 8.06 | 7.79 |
| 1924 | 7.54 | 7.66 | 7.58 |
| 1925 | 7.15 | 7.51 | 7.25 |
| 1926 | 6.99 | 7.57 | 7.10 |
| 1927 | 6.88 | 7.30 | 6.94 |
| 1928 | 7.08 | 7.06 | 7.08 |
| 1929 | 7.10 | 7.04 | 7.14 |
| 1930 | 6.99 | 7.05 | 7.01 |
| 1931 | 6.84 | 6.90 | 6.87 |
| 1932 | 6.60 | 7.04 | 7.01 |
| 1933 | 6.84 | 7.79 | 6.80 |
| 1934 | 6.43 | 6.90 | 6.79 |
| 1935 | 6.05 | 6.16 | 6.13 |
| 1936 | 5.80 | 5.84 | 5.83 |
| 1937 | 5.75 | 5.82 | 5.81 |
| 1938 | 5.87 | 5.68 | 5.76 |
| 1939 | 6.01 | 5.45 | 5.66 |



7
1927

1927

Experience of One Nationally Operating Company
on Mortgage Interest Rates

| Year | New Mortgages | Renewed During the Year | Accepted and Paid |
|------|---------------|----------------------------|----------------------|
| 1927 | 7.50 | 7.50 | 7.50 |
| 1928 | 7.50 | 7.50 | 7.50 |
| 1929 | 7.50 | 7.50 | 7.50 |
| 1930 | 7.50 | 7.50 | 7.50 |
| 1931 | 7.50 | 7.50 | 7.50 |
| 1932 | 7.50 | 7.50 | 7.50 |
| 1933 | 7.50 | 7.50 | 7.50 |
| 1934 | 7.50 | 7.50 | 7.50 |
| 1935 | 7.50 | 7.50 | 7.50 |
| 1936 | 7.50 | 7.50 | 7.50 |
| 1937 | 7.50 | 7.50 | 7.50 |
| 1938 | 7.50 | 7.50 | 7.50 |
| 1939 | 7.50 | 7.50 | 7.50 |
| 1940 | 7.50 | 7.50 | 7.50 |
| 1941 | 7.50 | 7.50 | 7.50 |
| 1942 | 7.50 | 7.50 | 7.50 |
| 1943 | 7.50 | 7.50 | 7.50 |
| 1944 | 7.50 | 7.50 | 7.50 |
| 1945 | 7.50 | 7.50 | 7.50 |
| 1946 | 7.50 | 7.50 | 7.50 |
| 1947 | 7.50 | 7.50 | 7.50 |
| 1948 | 7.50 | 7.50 | 7.50 |
| 1949 | 7.50 | 7.50 | 7.50 |
| 1950 | 7.50 | 7.50 | 7.50 |
| 1951 | 7.50 | 7.50 | 7.50 |
| 1952 | 7.50 | 7.50 | 7.50 |
| 1953 | 7.50 | 7.50 | 7.50 |
| 1954 | 7.50 | 7.50 | 7.50 |
| 1955 | 7.50 | 7.50 | 7.50 |
| 1956 | 7.50 | 7.50 | 7.50 |
| 1957 | 7.50 | 7.50 | 7.50 |
| 1958 | 7.50 | 7.50 | 7.50 |
| 1959 | 7.50 | 7.50 | 7.50 |
| 1960 | 7.50 | 7.50 | 7.50 |
| 1961 | 7.50 | 7.50 | 7.50 |
| 1962 | 7.50 | 7.50 | 7.50 |
| 1963 | 7.50 | 7.50 | 7.50 |
| 1964 | 7.50 | 7.50 | 7.50 |
| 1965 | 7.50 | 7.50 | 7.50 |
| 1966 | 7.50 | 7.50 | 7.50 |
| 1967 | 7.50 | 7.50 | 7.50 |
| 1968 | 7.50 | 7.50 | 7.50 |
| 1969 | 7.50 | 7.50 | 7.50 |
| 1970 | 7.50 | 7.50 | 7.50 |
| 1971 | 7.50 | 7.50 | 7.50 |
| 1972 | 7.50 | 7.50 | 7.50 |
| 1973 | 7.50 | 7.50 | 7.50 |
| 1974 | 7.50 | 7.50 | 7.50 |
| 1975 | 7.50 | 7.50 | 7.50 |
| 1976 | 7.50 | 7.50 | 7.50 |
| 1977 | 7.50 | 7.50 | 7.50 |
| 1978 | 7.50 | 7.50 | 7.50 |
| 1979 | 7.50 | 7.50 | 7.50 |
| 1980 | 7.50 | 7.50 | 7.50 |
| 1981 | 7.50 | 7.50 | 7.50 |
| 1982 | 7.50 | 7.50 | 7.50 |
| 1983 | 7.50 | 7.50 | 7.50 |
| 1984 | 7.50 | 7.50 | 7.50 |
| 1985 | 7.50 | 7.50 | 7.50 |
| 1986 | 7.50 | 7.50 | 7.50 |
| 1987 | 7.50 | 7.50 | 7.50 |
| 1988 | 7.50 | 7.50 | 7.50 |
| 1989 | 7.50 | 7.50 | 7.50 |
| 1990 | 7.50 | 7.50 | 7.50 |
| 1991 | 7.50 | 7.50 | 7.50 |
| 1992 | 7.50 | 7.50 | 7.50 |
| 1993 | 7.50 | 7.50 | 7.50 |
| 1994 | 7.50 | 7.50 | 7.50 |
| 1995 | 7.50 | 7.50 | 7.50 |
| 1996 | 7.50 | 7.50 | 7.50 |
| 1997 | 7.50 | 7.50 | 7.50 |
| 1998 | 7.50 | 7.50 | 7.50 |
| 1999 | 7.50 | 7.50 | 7.50 |
| 2000 | 7.50 | 7.50 | 7.50 |
| 2001 | 7.50 | 7.50 | 7.50 |
| 2002 | 7.50 | 7.50 | 7.50 |
| 2003 | 7.50 | 7.50 | 7.50 |
| 2004 | 7.50 | 7.50 | 7.50 |
| 2005 | 7.50 | 7.50 | 7.50 |
| 2006 | 7.50 | 7.50 | 7.50 |
| 2007 | 7.50 | 7.50 | 7.50 |
| 2008 | 7.50 | 7.50 | 7.50 |
| 2009 | 7.50 | 7.50 | 7.50 |
| 2010 | 7.50 | 7.50 | 7.50 |
| 2011 | 7.50 | 7.50 | 7.50 |
| 2012 | 7.50 | 7.50 | 7.50 |
| 2013 | 7.50 | 7.50 | 7.50 |
| 2014 | 7.50 | 7.50 | 7.50 |
| 2015 | 7.50 | 7.50 | 7.50 |
| 2016 | 7.50 | 7.50 | 7.50 |
| 2017 | 7.50 | 7.50 | 7.50 |
| 2018 | 7.50 | 7.50 | 7.50 |
| 2019 | 7.50 | 7.50 | 7.50 |
| 2020 | 7.50 | 7.50 | 7.50 |
| 2021 | 7.50 | 7.50 | 7.50 |
| 2022 | 7.50 | 7.50 | 7.50 |
| 2023 | 7.50 | 7.50 | 7.50 |
| 2024 | 7.50 | 7.50 | 7.50 |
| 2025 | 7.50 | 7.50 | 7.50 |
| 2026 | 7.50 | 7.50 | 7.50 |
| 2027 | 7.50 | 7.50 | 7.50 |
| 2028 | 7.50 | 7.50 | 7.50 |
| 2029 | 7.50 | 7.50 | 7.50 |
| 2030 | 7.50 | 7.50 | 7.50 |



Nethercut & Young
Toronto, Ontario

A101
Appendix 9

| 1 | 2 | 1. New Business Accepted | 2. Renewed During the Year | 1.+2. Accepted and Renewed |
|----|------|--------------------------------|----------------------------------|----------------------------------|
| 2 | Year | | | |
| 3 | | % | % | % |
| 4 | 1940 | 5.90 | 5.52 | 5.63 |
| 5 | 1941 | 5.85 | 5.45 | 5.55 |
| 6 | 1942 | 5.76 | 5.39 | 5.48 |
| 7 | 1943 | 5.61 | 5.26 | 5.36 |
| 8 | 1944 | 5.33 | 5.33 | 5.33 |
| 9 | 1945 | 5.27 | 5.23 | 5.25 |
| 10 | 1946 | 5.28 | 5.08 | 5.21 |
| 11 | 1947 | 5.32 | 5.13 | 5.24 |
| 12 | 1948 | 5.42 | 5.18 | 5.35 |
| 13 | 1949 | 5.63 | 5.24 | 5.54 |
| 14 | 1950 | 5.64 | 5.40 | 5.58 |
| 15 | 1951 | 5.89 | 5.67 | 5.84 |
| 16 | 1952 | 6.40 | 6.08 | 6.32 |
| 17 | 1953 | 6.64 | 6.33 | 6.57 |
| 18 | 1954 | 6.71 | 6.60 | 6.69 |
| 19 | 1955 | 6.54 | 6.46 | 6.52 |
| 20 | 1956 | 6.71 | 6.62 | 6.69 |
| 21 | 1957 | 7.47 | 7.25 | 7.42 |
| 22 | 1958 | 7.27 | 7.12 | 7.23 |
| 23 | 1959 | 7.39 | 7.36 | 7.38 |
| 24 | 1960 | 7.82 | 7.70 | 7.80 |
| 25 | 1961 | 7.48 | 7.51 | 7.48 |
| 26 | | | | |
| 27 | | | | |
| 28 | | | | |
| 29 | | | | |
| 30 | | | | |



SUBMISSION TO
THE ROYAL COMMISSION ON BANKING AND FINANCE
BY
THE NATIONAL HOUSE BUILDERS ASSOCIATION

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SECTION 1

INTRODUCTION

1.1

The National House Builders Association is a non-profit organization consisting of 48 affiliated local house builders associations (1) and individual members who subscribe to the NHBA Code of Ethics and adhere to its objectives (2). This Association represents the entire housing industry through its membership of over 3,000 home builders, building contractors and sub-contractors, material suppliers, mortgage lenders, realtors, architects and building material manufacturers.

1.2

NHBA was incorporated under a Federal charter on February 8th, 1943. Its administrative office is located in Office Suite 27 of the King Edward Sheraton Hotel, 37 King Street East, Toronto, Ontario.

1.3

NHBA is particularly interested in the opportunity afforded it to present its views to the Royal Commission on Banking and Finance. This Association first recommended the establishment of a Royal Commission to investigate the

(1) List of NHBA Affiliated Associations appears as Appendix "A".

(2) NHBA Code of Ethics and Objectives appear as Appendix "B".



1 financing of dwelling construction in Canada, to
2 the Minister of Public Works on May 19, 1960.
3 It again submitted this request to the Prime
4 Minister's Conference on Employment on October
5 24, 1960 and again most recently to the Minister
6 of Public Works on February 22, 1961.

7
8 1.4 While our proposal did not meet with the
9 Minister's approval, the decision of the Govern-
10 ment a short time later to appoint the Royal
11 Commission on Banking and Finance has provided
12 for a much broader investigation which will
13 certainly include the financing of housing as
14 one of its important segments. We therefore are
15 pleased to submit herewith our comments and
16 recommendations.



SECTION 2

SUMMARY OF VIEWS AND RECOMMENDATIONS

2.1 It has been established that housing is an important industry in Canada. It is not only important as an industry which employs hundreds of thousands of workers in every community in the country, but it is also important since it serves a vital social function through the building of homes for our people. (Paras. 3.16-3.18)

2.2 The Federal Government has recognized the housing industry as an important one by the series of Housing Acts which it has enacted. It has attempted to encourage and promote residential mortgage investment, the life-blood of housing, even to the extent of appropriating large sums of public money for this purpose, when private sources failed to meet the demand. (Paras. 4.1-4.3)

2.3 There is not an adequate base of private funds available for the residential construction industry in Canada and as a consequence it has been subjected to periodic shortages which have had a disrupting effect upon its efficiency, upon employment and upon the price which must be charged for the end product. None of the measures taken so far have accomplished the aim of providing enough mortgage money at the right time, from all the possible sources. It is hoped that the Royal Commission on Banking and Finance will make recommendations aimed at overcoming the obstacles

SUMMARY OF VIEW AND RECOMMENDATIONS

It has been established that housing is an important industry in Canada. It is not only important as an industry which employs thousands of thousands of workers in every community in the country, but it is also important since it serves a vital social function through the building of homes for our people. (Paras. 2, 3, 4, 5, 6)

The Federal Government has recognized the housing industry as an important one by the series of Housing Acts which it has enacted. It has attempted to encourage and promote residential mortgage investment, the 1940-1941 Act, even to the extent of subsidizing large sums of public money for this purpose, when private sources failed to meet the demand. (Paras. 4, 5, 6, 7)

There is not an adequate flow of private funds available for the residential construction industry in Canada and as a consequence it has been subjected to periods of shortages which have had a disturbing effect upon its efficiency, upon employment and upon the price which must be charged for the product. None of the measures taken so far have accomplished the aim of providing enough mortgage money at the right time, from all the possible sources. It is hoped that the Royal Commission on Banking and Finance will make recommendations aimed at overcoming the obstacles



1 which have hitherto existed. (Paras. 4.28-4.38)

2 2.4 About \$975 million is required annually in
3 Canada, over and above the amount being repaid
4 every year on outstanding mortgages, to finance
5 the present extent of dwelling construction.
6 This is new money each year which must flow
7 into housing. When viewed in comparison with
8 the current annual rate of personal savings of
9 Canadians, it would appear that the private sector
10 of the economy could provide the necessary amount.
11 (Para. 3.12)

12 2.5 Various authorities seem to believe that the
13 industry's financial requirements will continue
14 at about the present level, at least until about
15 1980. The building of homes and other structures
16 associated with them has created the largest
17 manufacturing business in Canada. It is a local
18 industry employing for the most part local people
19 and Canadian materials. It is an industry
20 providing in excess of 4000,000 on-site jobs
21 alone, to say nothing of the thousands of jobs
22 created to produce the raw materials, transport,
23 manufacture and eventually deliver them to the
24 jobsites. (Paras.3.13-3.18)

25 2.6 Expenditure for new housing, for repairs
26 and for maintenance averages about \$2 billion
27 annually in Canada. The residential construction
28 industry was responsible for 17.4% of the capital
29 investment in the economy during 1961 - 4% of the
30 Gross National Product. 85.4% of the cost of
this new housing was financed by mortgages in



1 1961, an indication of the importance of this type
2 of financing to this industry.

(Paras. 3.1-3.4)

3 2.7 It is estimated that well over three-quarters
4 of all residential mortgages went to so-called
5 "merchant builders" who were either building for
6 sale or for rent. The approved lending institutions
7 last year issued 90% of their National Housing Act
8 insured loans to builders and only 10% to home-
9 owner applicants. This is an illustration of the
10 fact that builders and not owners, initiated most
11 of the residential construction.

(Paras. 3.5-3.7)

12 2.8 At the present time, prospective home
13 purchasers need the maximum mortgage obtainable
14 and builders attempt to secure the largest loan
15 they can, when building for sale, in order to offer
16 the lowest down-payment possible. Many potential
17 customers find little difficulty meeting the monthly
18 carrying charges of a large mortgage, but almost
19 all of them have difficulty procuring the down
20 payment needed. In 1961, under the National
21 Housing Act, the average down payment was \$2,475.
22 or 17.1% of the cost of the average house.

(Paras. 3.9-3.11)

23 2.9 The original objectives of the National
24 Housing Act, 1954 were to broaden the supply of
25 mortgage money by making that form of investment
26 more attractive, increasing the number of lenders
27 and making more money available for mortgage
28 lending. The National House Builders Association
29 believes that the objectives of the National
30



Housing Act were realized only for a very short
time after its passage. Means should now be found
to make it capable of fulfilling its intended
function. (Paras. 4.1-4.2)

2.10 The NHA, 1954 brought the chartered banks into the mortgage field for the first time. The banks loaned heavily for a few years but now have withdrawn again and their enormous accumulation of personal savings is unavailable for mortgages. There are three chief reasons for their withdrawal: The first is the Bank Act which prevents them from investing in loans at more than 6% interest, whereas the current NHA interest rate is set at 6.1/2%; the second is that banks from their experience feel the NHA mortgages are not really 100% insured; and the third is that mortgages do not represent a readily disposable asset.

2.11 The chartered banks, during their active mortgage days, proved to be a versatile outlet for loans. With their extensive branch banking system, even the smallest community had ready access to a mortgage office.

(Paras. 4.47-4.48)

2.12 NHBA is of the opinion that the Bank Act
should be amended to permit the chartered banks
to make insured NHA mortgage loans at the prevail-
ing NHA interest rate, whatever it may be.
Failing their active re-entry into mortgage
lending, it is our recommendation that new

to make it possible to obtain a loan

Location. (Hawaii, 11-4-41)

The WPA (1934) bought the chartered bank
into the mortgage field for the first time. The
banks formed new day for a few years but now have
withdrawn again and their enormous accumulation
of personal savings is unavailable for mortgages.
There are three chief reasons for their with-

drawal: The first is the Bank Act which prevents
them from investing in loans at more than 6%
interest, whereas the current WPA interest rate
is set at 0.1%, the second is that banks have
their experience feel the WPA mortgages are not
really 100% insured; and the third is that
mortgages do not represent a readily disposable
asset.

The chartered banks, during their active
mortgage days, proved to be a very real obstacle
for loans. With their extensive branch banking
system, even the smallest community had ready
access to a mortgage office.

WPA is of the opinion that the Bank Act
should be amended to allow the WPA to
to make insured WPA loans at the 0.1%
and the interest rate, 0.1% per annum.
Following their active role in the mortgage



1 financial institutions such as the Building
2 Societies of Great Britain and the Savings and
3 Loan Associations of the United States be permitted
4 to be established.

5 Ultimately, we believe, a proportion of personal
6 savings would find its way into these new
7 institutions which traditionally lend heavily
8 in mortgages. It is unfair to this industry and
9 to the Canadian public to be deprived of the use
10 of the personal savings held by the banks but
11 presently barred from mortgage investment.

12 (Paras. 4.39-4.43)

13 2.13 The Federal Government entered the mortgage
14 scene in a substantial way in 1957 by issuing
15 direct loans through Central Mortgage and
16 Housing Corporation. This action was occasioned
17 by failure of the private lenders to supply a
18 sufficient quantity of money. The Government has
19 continued to follow this practice ever since,
20 not always however, pacing its amount of lending
21 to the needs of the market. This has had a
22 disrupting effect on the housing market by virtue
23 of the unpredictable flow of funds from CMHC.

24 (Paras. 4.4-4.25)

25 2.14 The direct loans made by the Government have
26 on occasion, been aimed more at overcoming the
27 unemployment problem or reducing its borrowing,
28 than in following the normal requirements for
29 housing. The violent fluctuations thus created
30 in the supply of mortgage funds have had a

Financial Institutions and the Building

Societies of Great Britain and the Housing and

Loan Association of the United States is permitted

to be established.

Ultimately, we believe, a proportion of personal

savings would find its way into these new

institutions which creditably lend heavily

in mortgages. It is unfair to take industry and

to the Canadian public to be deprived of the use

of the personal savings held by the banks and

presently barred from mortgage investment.

(P. 4, 1941, 1942)

The Federal Government entered the mortgage

scene in a substantial way in 1947 by issuing

direct loans through Central Mortgage and

Housing Corporation. This action was occasioned

by failure of the private lenders to supply a

sufficient quantity of money. The Government has

continued to follow this practice ever since,

not always however, paying its account of lending

to the needs of the market. This has had a

disturbing effect on the housing market by virtue

of the unrepayable flow of funds from CMHC.

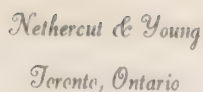
The direct loans made by the government have

on occasion, been aimed more at overcoming the

transportation problem or reducing the borrowing

than in following the normal requirements for

housing. The violent fluctuations in the housing



2.16 NHBA recommends that a broader base of mortgage funds from private sources, rather than from public sources, be established, which would react to normal economic laws of supply and demand and that the Government gradually withdraw from direct lending and confine itself to the insuring of mortgages - lending only in areas where approved lenders are not active or not meeting the local demand. (Paras. 4.23-4.27)

2.17 Because there are many owners of existing houses who are now confined to accommodation which is unsuited to their present needs, but yet who are prevented from disposing of them because of insufficient mortgage financing, NHBA recommends that the terms of the National Housing Act be expanded to include the insuring of mortgages on existing houses, in the same manner and to the same extent as mortgages are



1 presently insured on new houses under the Act.

2 Such a measure would, in all probability, call
3 for additional mortgage funds, thus making the
4 existing base of private funds still more
5 inadequate than it has been to date. It is our
6 opinion that an additional demand for new housing
7 would also accompany the extension of NHA lending
8 to older homes. (Paras. 4.50-4.61)

9 2.18 Mortgage financing under our National
10 Housing Act is forcing prospective homeowners
11 into the suburbs as opposed to the existing
12 built-up sections of our cities, because it
13 applies exclusively to new housing. Home
14 purchasers wishing to purchase existing dwellings
15 are obliged to rely on conventional mortgages
16 often supplemented by second mortgages at
17 exorbitant rates of interest.
18 (Paras. 4.52-.455)

19 2.19 The refinancing of existing houses under
20 NHA would establish an active trade-in market
21 which does not exist today. Our market is
22 stagnant because of the inability to move the
23 existing houses into the hands of persons willing
24 to occupy them. (Paras. 4.56-4.57)

25 2.20 The Federal Housing Administration in the
26 United States has had such a program ever since
27 1934. The FHA Commissioner has stated that he
28 does not see how an active market could exist
29 without it since the majority of new home
30 purchasers come from the group which already own



1 homes. Last year almost two-thirds of all FHA
2 insured loans were on existing houses.

3 (Paras. 4.58-4.60)

4 2.21 Some controls would undoubtedly be needed
5 to prevent funds from a new mortgage on an
6 existing dwelling being used by the owner for
7 some purpose other than the purchase of a new
8 home but these would be relatively simple to
9 incorporate in the regulations.

10 (Paras. 4.61-4.63)

11 2.22 The effect on the present lending institutions
12 would be to bring many more of them in as NHA
13 approved lenders since conventional loans would be
14 less attractive. There would be a beneficial
15 effect by the virtual elimination of the usurious
16 second mortgage business. (Paras. 4.64-4.69)

17 2.23 One factor exerting a profound influence on
18 the availability of mortgage funds, particularly
19 from the private sector of lenders, has been the
20 NHA controlled interest rate. It is frequently
21 out of line with other interest rates and hence
22 causes the lenders to shift their investments
23 away from NHA mortgages. The rate is set by
24 the Government in relation to 20-year bonds to
25 which there appears little if any connection.
26 NHBA advocates that the NHA interest rate be
27 freed to find its own level, as conventional
28 mortgage rates do, just as soon as the base of
29 residential mortgage funds becomes sufficiently
30 broad. In the meantime the NHA interest rate

homes. Last year almost two-thirds of all FHA insured loans were on existing houses.

(Paras. 4.58-4.60)

Some controls would undoubtedly be needed to prevent funds from a new mortgage on an existing dwelling being used by the owner for some purpose other than the purchase of a new home but these would be relatively simple to incorporate in the regulations.

(Paras. 4.61-4.63)

The effect on the present lending institution would be to bring many more of them in as FHA approved lenders since conventional loans would be less attractive. There would be a beneficial effect by the virtual elimination of the various

2.24 One factor exerting a profound influence on the availability of mortgage funds, particularly from the private sector of lenders, has been the FHA controlled interest rate. It is frequently out of line with other interest rates and hence causes the lenders to shift their investments away from FHA mortgages. The rate is set by the Government in relation to 20-year bonds to which there appears little if any connection. FHA advocates that the FHA interest rate be fixed to find its own level as conventional mortgage rates do, just as soon as the bond of conventional mortgage funds becomes sufficient. In the meantime the FHA interest rate



should be adjusted with sufficient frequency and
kept sufficiently high to encourage mortgage
lending. (Paras. 4.70-4.82)

2.24 NHA mortgages up to now have not had a high degree of marketability and this has made certain investors reluctant to buy them. It has also meant that the approved lenders did not have a ready market for selling their holdings and eventually reached the point where they held just about all the mortgages they could afford. Only by increasing their assets and by the repayments on their holdings, could they continue to acquire additional NHA mortgages.

(Paras. 4.83-4.84)

2.25 Pension Funds, for instance, could be large purchasers of this type of mortgage which is Government guaranteed. At the present time there are only 8% of their assets invested in mortgages. Investors of this type do not have facilities for servicing mortgages and hence would be more interested in buying the securities of a company which had as its assets, insured NHA mortgages. Such companies are coming into existence and every encouragement should be given to them.

(Paras. 4.85-4.87)

2.26 Central Mortgage and Housing Corporation has conducted several sales of its mortgage holdings to make investment in this sort of security better known to the available investors. This



should be adjusted with sufficient frequency and

kept sufficiently high to encourage mortgage

WHA mortgages up to now have not had a high

degree of marketability and this has made certain

investors reluctant to buy them. It has also

meant that the approved lenders did not have a

ready market for selling their holdings and

eventually reached the point where they had

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Only by increasing their assets and by the

repayments on their holdings, could they continue

to acquire additional WHA mortgages.

(Pages 4.63-4.64)

Finance Funds, for instance, could be large

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there are only 8% of their assets invested in

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WHA mortgages. Such companies are coming into

existence and every encouragement should be given

to them.

General Mortgage and Housing Corporation has

conducted several sales of its mortgage holdings

to make investment in this sort of security

more known to the available investors. This



1 is creating a secondary mortgage market aimed
2 at providing a means of disposing of NHA insured
3 mortgages by present holders of them. This will
4 enable them to re-invest in new NHA mortgages and
5 in effect a broader group of persons will have
6 made its money available for mortgages. So far,
7 however, none of these measure has increased the
8 supply of mortgage funds to the required degree.

9 (Paras. 4.90-4.92)

10 2.27 NHBA recommends that the Secondary Mortgage
11 Market be given added emphasis and that the
12 present restrictions which have curtailed the
13 activity in this field, be removed. (Para. 4.92)

14 2.28 The statutory limit of 66.2/3% of the value
15 of the property, which is the maximum conventional
16 mortgage allowed should be either raised or
17 eliminated in favour of the British system of
18 letting the companies themselves judge the degree
19 of risk involved, based on the other factors
20 affecting the loans, and then to advance the
21 appropriate percentage of the value. Conventional
22 mortgages, being limited in their amount, have
23 bred the second mortgage and all of its ills of
24 high interest, short terms and substantial
25 bonuses. These would practically disappear if
26 the first mortgage could be made for a greater
27 amount. In reality the position of the first
28 mortgagee would be improved by eliminating the
29 heavy charges to the mortgagor of the second
30 mortgage.

(Paras. 5.1-5.8)



in operating a secondary mortgage market aimed at providing a means of disposing of NIM insured mortgages by present holders of them. This will enable them to re-invest in new NIM mortgages and in effect a broader group of persons will have made the money available for mortgages. So far, however, none of these measures has increased the supply of mortgage funds to the required degree.

worked to give added emphasis and that the present restrictions which have curtailed the activity in this field, be reviewed. (Para. 4.24)

The secondary limit of 50% of the value of the property, which is the maximum conventional mortgage allowed should be either raised or eliminated in favour of the British system of letting the companies themselves judge the degree of risk involved, based on the other factors affecting the loan, and then to advance the appropriate percentage of the value. Conventional mortgages, being limited in their amount, have freed the second mortgage and all of its ill-effects. High interest, short terms and security are the first mortgage could be made for a lesser amount. In reality the position of the first mortgage would be improved by eliminating the heavy charges to the mortgagor of the second



2.29

NHBA recommends easing of the present
restrictions on conventional mortgage companies
in order to permit them to use more individual
discretion in the amount of loan they can make.
If it is felt inexpedient to lift the ceiling
entirely, we would strongly suggest the raising
of the upper limit on conventional mortgages
from 66.2/3% to at least 80% of the value of
the property. (Para. 5.9)

2.30

We predict an increasing emphasis on urban
renewal projects, on rehabilitation of run-down
areas, of conservation of less decrepit houses
and of home improvements. All of these will
require large amounts of financing, sometimes of
a new and different type. Already we can see
the shortcomings of the available home improve-
ment loans under NHA. NHBA advocates that the
present limit on NHA Home Improvement Loans be
increased from \$4,000.00 to \$8,000.00, that the
repayment term be extended to 20 years, and the
banks be permitted to charge the prevailing
NHA interest rate. (Paras. 6.7-6.10)

2.29

WHA recommends a change of the present

restrictions on conventional mortgage companies in order to permit them to make individual discretion in the amount of loan they can make. If it is felt that the limit is still too ceiling entirely, we would strongly suggest the raising of the upper limit on conventional mortgages from 50% to at least 80% of the value of

the property. (Para. 5.9)

2.30

We predict an increasing emphasis on gross renewal projects, on rehabilitation of run-down areas, of conservation of less desirable houses

and of home improvements. All of these will

require large amounts of financing, sometimes of

a new and different type. Already we can see

the shortcomings of the available home improve-

ment loans under WHA. WHA advocates that the

present limit on WHA Home Improvement Loans be

increased from \$1,000.00 to \$5,000.00, that the

repayment term be extended to 20 years, and the

banks be permitted to charge the prevailing

WHA interest rate. (Para. 6.7-6.10)

SECTION 3SOURCES OF FUNDS FOR HOUSINGMagnitude of Financing for the Housing Industry

3.1 Expenditures on new housing construction in Canada in 1961 totalled \$1,467 million. These expenditures, which do not include many of the service facilities occasioned by new housing - including schools, shopping centres, sewer, water and other municipal improvements - represented 17.4% of capital investment in the economy during the year - 4% of the Gross National Product (1). Expenditures had reached a peak in 1958 of \$1,782 million.

TABLE 1RESIDENTIAL CONSTRUCTION EXPENDITURES, PUBLIC (2)
AND PRIVATE

(Millions of Dollars)

| <u>Period</u> | <u>Total New Construction</u> | <u>Repair and Maintenance</u> | <u>Total all Residential Construction</u> |
|-----------------|---------------------------------------|-----------------------------------|---|
| 1956 | 1,547 | 355 | 1,902 |
| 1957 | 1,430 | 383 | 1,813 |
| 1958 | 1,782 | 407 | 2,189 |
| 1959 | 1,752 | 431 | 2,183 |
| 1960 | 1,456 | 457 | 1,913 |
| 1961 | <u>1,467</u> | <u>484</u> | <u>1,951</u> |
| Average 6 years | 1,572 | 420 | 1,992 |

Table 1 shows the residential construction expenditures, both public and private, which have been made during the past six years. The annual average for this period has been \$1,572

(1) CMHC Annual Report - 1961, Page 6.

(2) Includes Crown Companies and non-departmental agencies CMHC "Canadian Housing Statistics - 1961" - Table 18.



million for new construction. In addition to the foregoing, there has been expended a sum for repair and maintenance of residential buildings which averaged \$420 million over the previous six year period, making a total average expenditure for all residential construction of \$1,992 million. It may be concluded therefore that the residential construction industry in Canada has reached approximately the \$2 billion a year figure.

During 1961, to finance the total new housing, mortgage and other financing amounting to \$1,253 million (1) was made available. This represented 84.4% of the total cost of new construction, leaving a balance of \$231.9 million or 15.6% to be financed by equities of builders and owners in addition to the above mortgages.

3.4 Plus lending \$786 million (2) for new residential construction in 1961, the lending institutions also made loans amounting to \$300 million (2) on existing residential property. This made their total contribution in the residential field \$1,085 million (2).

Magnitude and Form of Funds Needed by Builders

3.5 It is difficult to obtain the exact proportion of mortgage funds needed by builders to conduct their operations because of several

(1) CMHC "Canadian Housing Statistics - 1961" 34.
(2) CMHC "Canadian Housing Statistics - 1961" 20.



million for new construction. In addition to the

foregoing, there has been expended a sum for

repair and maintenance of residential buildings

which averaged \$1.0 million over the previous five

year period, making a total average expenditure

for all residential construction of \$1.923

million. It may be concluded therefore that the

residential construction industry in Canada has

received approximately the \$2 million a year

figure.

During 1961, to finance the total new housing

mortgage and other financing amounting to \$1.253

million (1) was made available. This represented

84.4% of the total cost of new construction,

leaving a balance of \$21.9 million on 12.66

to be financed by equities of builders and owners

in addition to the above mortgages.

Plus leaving \$766 million (2) for new

residential construction in 1961, the financing

institutions also made loans amounting to \$500

million (3) on existing residential property.

This made the total contribution in the

residential sector \$1,085 million (4).

Financing and Role of Funds Needed by Builders

It is difficult to obtain the exact

proportion of mortgage funds needed by builders

to conduct their operations because of several



1 factors. Where builders sell to home purchasers
2 in advance of the commencement of construction,
3 it is frequently the practice to make the mortgage
4 application in the home owner's name rather than
5 that of the builder. Consequently the published
6 figures may indicate a disproportionate share of
7 loans for home owners.

8 3.6 Figures which are at hand for loans made
9 under the National Housing Act indicate that of
10 the total mortgage loans of \$703 million (3)
11 made in 1961, \$502 million (3) or 71.5% went to
12 builders who were either building houses for sale
13 or for rental purposes. In the case of approved
14 lenders making N.H.A. loans in 1961 the percentage
15 was even higher. Of \$394 million (3) loaned,
16 90% went to builders. As mentioned, the actual
17 percentage was probably more than this.

18 3.7 Figures showing the comparative conventional
19 mortgage loans to builders and home owners are
20 not at hand.

21 -----
22 (3) CMHC "Canadian Housing Statistics - 1961"
23 Table 26.
24 -----

24 Magnitude and Form of Funds Needed by Home
25 Purchasers

26 3.8 The financing shown as applicable to home
27 purchasers in the statistics available, applies
28 only to those cases where the home owner has
29 been the applicant for the mortgage. In many
30 cases the home owner assumes the mortgage which
is taken out by the builder. In either case

lenders. Where builders sell to home purchasers in advance of the commencement of construction, it is frequently the practice to make the mortgage application in the home owner's name rather than that of the builder. Consequently the published figures may indicate a disproportionate share of loans for home owners.

Figures which are at hand for loans made under the National Housing Act indicate that of the total mortgage loans of \$703 million (3) made in 1961, \$502 million (3) or 71.5% went to builders who were either building houses for sale or for rental purposes. In the case of approved lenders making N.H.A. loans in 1961 the percentage was even higher. Of \$894 million (3) loaned, 90% went to builders. As mentioned, the actual percentage was probably more than this.

Figures showing the comparative conventional mortgage loans to builders and home owners are not at hand.

(3) CMHC "Canadian Housing Statistics - 1961" Table 20.

Magnitude and Form of Funds Needed by Home

The financing shown as applicable to home purchasers in the statistics available, applies only to those cases where the home owner has been the applicant for the mortgage. In many cases the home owner assumed the mortgage which



1 the mortgage is for the eventual use of the
2 home owner and the figures merely indicate who
3 the original applicant was. In 1961 of the
4 \$703 million (1) loaned under the National
5 Housing Act, \$201 million (1) or 28.5% was in
6 the name of owner applicants.

7
8 Purpose for Housing Funds

9 3.9 There are two principal purposes for housing
10 funds, the first is for the provision of
11 mortgages and the second is for the provision of
12 the builder's or owner's equity.

13 3.10 When builders construct houses for sale,
14 they universally apply for the largest first
15 mortgage obtainable. Upon resale to a home
16 purchaser they are then in a position to offer
17 the lowest down payment - a necessary ingredient
18 in today's competitive housing market. If the
19 home purchaser turns out to require less mortgage
20 and is in a position to make a greater down
21 payment, it is a simple matter to reduce the
22 mortgage at the time of resale. On the other
23 hand, if the largest first mortgage is not
24 obtained initially, it is virtually impossible
25 to refinance the house with a greater mortgage
26 after it has been constructed.

27 3.11 When a prospective home owner applies for
28 a mortgage, the amount required is dependent on
29 the owner's available equity. In 1961 under

30 -----
(1) CMHC "Canadian Housing Statistics - 1961"
Table 26.



the mortgage in for the eventual use of the
 home owner and the figures merely indicate who
 the original applicant was. In 1951 of the
 \$708 million (1) loaned under the National
 Housing Act, \$201 million (1) or 28.5% was in
 the name of owner applicants.

Purposes for Housing Funds

There are two principal purposes for housing
 funds, the first is for the provision of
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When builders construct houses for sale,
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 hand, if the largest first mortgage is not
 obtained initially, it is virtually impossible
 to refinance the house with a greater mortgage
 after it has been constructed.

3.11

When a prospective home owner applies for
 a mortgage, the amount required is dependent on
 the owner's available equity. In 1951 under



the National Housing Act the average down payment was \$2,475.00 per single family dwelling unit or 17.1% of the cost. The balance of 82.9% was financed by mortgage. This serves to illustrate the extreme importance of mortgage financing to the housing industry.

Rates of Return

3.12 The requirement of funds for mortgage lending is large as indicated above and reached a total of about \$1,553 million in 1961. Figures shown would indicate that annual repayments to lending institutions on outstanding mortgages were \$478 million (1) in 1960. Figures given in the Annual Report of Central Mortgage and Housing Corporation for the year 1961 indicate that annual repayments on Government loans may be estimated at at least \$100 million. This means that the annual requirement for new money for mortgage lending purposes is now at the rate of approximately \$975 million. While large, this requirement does not theoretically appear beyond the capacity of the private sector of the economy to finance, providing the rate of return on mortgages is kept competitive with other users of long-term credit, and provided mortgages become a more fluid asset.

(1) CMHC "Canadian Housing Statistics - 1961"
Table 48

Future Requirements for Housing Funds

3.13 Present rates of population increase and



the National Housing Act the average down payment was \$2,475.00 per single family dwelling unit or 17.7% of the cost. The balance of \$2.94 was financed by mortgage. This serves to illustrate the extreme importance of mortgage financing to

Table of Ratios

3-12

The requirement of funds for mortgage lending is large as indicated above and reached a total of about \$1,553 million in 1961. Figures shown would indicate that annual repayments to lending institutions on outstanding mortgages were \$475 million (1) in 1960. Figures given in the Annual Report of Central Mortgage and Housing Corporation for the year 1961 indicate that annual repayments on Government loans may be estimated at at least \$100 million. This means that the annual requirement for new money for mortgage lending purposes is now at the rate of approximately \$975 million. While large, this requirement does not theoretically exceed beyond the capacity of the private sector of the economy to finance, providing the rate of return on mortgages is kept competitive with other assets of long-term credit, and provided mortgages become a more fluid asset.



1 expected family formations would indicate a steady
2 rise in the number of new dwelling units required.
3 The increase in the average life span and the
4 financial ability of older persons to maintain
5 their own homes constantly increases. The Minister
6 of Public Works recently stated that "millions of
7 Canadians today live in substandard conditions"
8 (2). On another occasion he said that it was
9 anticipated that by 1980 there will be twice as
10 many people living in urban areas as there are
11 today (3).

12 3.14 The Royal Commission on Canada's Economic
13 Prospects estimated that a minimum of \$45 to
14 \$50 billion (1) would be spent on new housing
15 in the 25 year period ending in 1980. This is an
16 average of \$1,800 to \$2,000 million per year.
17 The Commissioners in their report stated "We
18 would not be surprised if housing and social
19 capital expenditure as a proportion of Gross
20 National Expenditure turned out to be higher
21 than our forecast appears to indicate." These
22 and other trends would indicate a continuing
23 high level of residential building.

24 -----
25 (2) Remarks by The Hon. David J. Walker, to the
26 Annual Conference of Mayors & Municipalities -
Halifax, June 1, 1961.

27 (3) Remarks by the Hon. David J. Walker, to the
28 Eastern Mortgage Conference, Mortgage Bankers
Association of America, Montreal, May 18, 1961.

29 (1) Royal Commission on Canada's Economic
30 Prospects - 1957, Page 307.



expected family formations would indicate a steady rise in the number of new dwelling units required. The increase in the average life span and the financial ability of older persons to maintain their own homes constantly increases. The Minister of Public Works recently stated that "millions of Canadians today live in substandard conditions" (2). On another occasion he said that it was anticipated that by 1980 there will be twice as many people living in urban areas as there are today (3).

3.14

The Royal Commission on Canada's Economic Prospects estimated that a minimum of \$45 to \$50 billion (1) would be spent on new housing in the 25 year period ending in 1980. This is an average of \$1,800 to \$2,000 million per year. The Commission also stated that housing and social capital expenditure as a proportion of Gross National Expenditure turned out to be higher than our forecast appears to indicate. These and other trends would indicate a continuing high level of residential building.

(1) Royal Commission on Canada's Economic Prospects - 1967, Page 307.
(2) Remarks by The Hon. David L. Walker, to the Annual Conference of Mayors & Municipalities - Halifax, June 1, 1967.
(3) Remarks by the Hon. David L. Walker, to the Association of Mayors, Montreal, May 18, 1967.



3.15

The Commissioner of the Federal Housing Administration in the United States has said, "There will be a 40% increase in the 20-29 age group and a 20% in the 70 plus age group in the 1960's. This represents a complete shift in our nation's population structure, a shift that creates a huge demand for housing in the low-cost areas and in the areas of special need." (2) A similar situation prevails in Canada and the Commissioner's remarks apply equally here.

Social and Economic Importance of the Housing Industry

3.16

The building of homes - and the schools, churches and commercial buildings that serve them - is one of the largest manufacturing businesses in Canada. It employs more people and adds more dollar value to the finished product than any other manufacturing industry. Unlike our other great industries, building is not concentrated in a few cities but is important in every community. In many areas it is the most important local industry, and in many residential communities it is the only industry of any consequence.

(2) Remarks by Neal J. Hardy, Commissioner, Federal Housing Administration, before National Directors, National Association of Home Builders, Washington, D.C. - May 20, 1962.



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(2) Remarks by Neil J. Hardy, Commissioner, Federal Housing Administration, before the Senate Subcommittee on Housing, Committee on Labor and Human Resources, U.S. Senate, May 20, 1962.



1 3.17 More than half of every dollar spent in the
2 light construction industry remains in the
3 community in which the building takes place.
4 For example, in a typical new house, .55¢ out
5 of every construction dollar goes to local labour
6 on the jobsite (1). Most materials are purchased
7 locally and many are manufactured in or near where
8 the building is constructed. With minor exceptions
9 the materials used in home building in Canada are
10 of Canadian origin.

11 3.18 In terms of total employment and what this
12 means to the economy of the country, it has been
13 estimated by the Government that this industry
14 provides 600,000 (2) man year jobs directly and
15 indirectly. There are also by Government figures,
16 over 400,000 (3) jobs provided in on-site
17 construction alone. Then, in addition, there are
18 all the jobs more remotely involved in the
19 construction of housing units of various kinds.
20 For example, there is the underground servicing
21 of the land, the production, handling and
22 transportation of building materials. There are
23 as well, the men employed in getting out the logs,
24 lumbering, the making of furniture and the equip-
25 ment which goes into a home. Housing is truly a
26 giant employer of labour and its rises and falls
27 affect our total national employment picture to a
28 very considerable degree.

29 (1) "Building is a Local Business" - Practical Builder
Jan. 1962

30 (2) Hansard, Page 684, February 4th, 1959.

(3) Parliament Speaks on Housing - Volume V, No. 61,
Page 3, May 3rd. 1960.



3.17

More than half of every dollar spent in the

light construction industry remains in the

community in which the building takes place.

For example, in a typical new house, 25% out

of every construction dollar goes to local labour

on the job site (1). Most materials are purchased

locally and many are manufactured in or near where

the building is constructed. With minor exceptions

the materials used in home building in Canada are

of Canadian origin.

3.18

In terms of total employment and what this

means to the economy of the country, it has been

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(1)

"Building is a Local Business" - Provincial Minister



SECTION 4

MORTGAGE FINANCE UNDER THE NATIONAL HOUSING ACT

The National Housing Act, 1954

4.1

Federal Housing Legislation in Canada originated with the first Dominion Housing Act which was passed in 1935. It established a system of joint lending under which the Federal Government supplied approximately one-quarter of the loan and the lending institutions the balance. This form of public and private partnership in mortgages was retained in the National Housing Acts of 1938 and 1944 with only minor modifications.

4.2

It was the National Housing Act, 1954 however, which introduced the legislation under which we operate today, subject of course to subsequent important amendments. At the time that the Act was presented to Parliament the Minister stated "The main object of the legislation is to broaden the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending." He further stated, "It is quite clear that if there is to be an increase in private lending, additional funds must come from somewhere other than present sources of institutional mortgage funds."

4.3

It is apparent that the intent at that time



NATIONAL FINANCE UNDER THE NATIONAL HOUSING ACT

The National Housing Act, 1934

Federal Housing Legislation in Canada

which was passed in 1935. It established a

system of joint lending under which the Federal

Government supplied approximately one-quarter of

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balance. This form of public and private

partnership in mortgages was retained in the

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It was the National Housing Act, 1934 however

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quite clear that if there is to be an increase

in private lending, additional funds must come

from somewhere other than present sources of

institutional mortgage funds."

It is apparent that the intent at that time



1 was to stimulate private lending on NHA mortgages
2 to the point where the bulk of such funds would be
3 privately supplied.

4
5 4.4. The 1954 Act did two things: It brought the
6 chartered banks into the residential mortgage
7 market for the first time and it introduced a
8 system of mortgage insurance similar to that in
9 the United States. Before this, Canadian banks -
10 unlike banks in the United States - had been
11 unable to participate in mortgage lending.

12 4.5 The objective of the National Housing Act,
13 1954 was attained for only a very short period
14 after the inception of the Act. The objective
15 of the Act is still valid, in the opinion of
16 this Association, and means should be found to
17 make it capable of fulfilling its intended
18 function.

19 Recent History of NHA Financing

20 4.6 Attached to this Brief as Appendix "C" is a
21 log of important changes which have occurred in
22 the National Housing Act, the regulations under
23 the Act, or the announced policies governing its
24 administration, since the National Housing Act,
25 1954 went into effect. Appendix "D" shows
26 important housing data in chart form covering the
27 period 1951 to 1961.

28
29 4.7 In the years 1954 and 1955 private lenders
30 supplied sufficient funds for an ascending rate



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In the years 1954 and 1955 private lenders
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1 of housing starts reaching 138,000 in 1955. In
2 1956, however, there was a substantial drop in
3 the number of NHA loans, with a corresponding but
4 lesser drop in the total number of housing starts.
5 This was in spite of the fact that the ceiling on
6 interest rates under NHA was increased as of
7 March 1956 from 5.1/4 to 5.1/2%.

8 4.8

9 This was the period when the banks were
10 beginning to find it difficult to meet the demand
11 upon them for loans. In January 1957 the ceiling
12 on interest rates was raised to 6% and considerable
13 pressure was put on the banks to commit themselves
14 for at least \$150 million of new NHA mortgages in
15 1957. In spite of these measures, however, the
16 rate of lending on NHA mortgages by private
17 lenders was considered inadequate, and in
18 September of that year CMHC made available \$150
19 million for lending on low-cost houses. This
20 resulted in over 25,000 direct loans by CMHC
21 in 1957, which was ten times that of the previous
22 year.

23 4.9

24 In December 1957, regulations were changed
25 to lower down payments on NHA mortgages and the
26 availability of another \$150 million for low-
27 cost homes was announced. Result of these
28 measures was that in 1958 the number of housing
29 starts broke all records by reaching nearly
30 165,000, of which almost 82,000 were NHA starts,
and of these nearly 39,000 were financed by CMHC.



of housing starts reaching 138,000 in 1955. In 1956, however, there was a substantial drop in the number of MHA loans, with a corresponding but lesser drop in the total number of housing starts. This was in spite of the fact that the ceiling on interest rates under MHA was increased as of March 1956 from 5.1% to 5.15%.

This was the period when the banks were beginning to find it difficult to meet the demand upon them for loans. In January 1957 the ceiling on interest rates was raised to 6% and considerable pressure was put on the banks to commit themselves for at least \$150 million of new MHA mortgages in 1957. In spite of these measures, however, the rate of lending on MHA mortgages by private lenders was considered inadequate, and in September of that year CMHC made available \$150 million for lending on low-cost houses. This resulted in over 25,000 direct loans by CMHC in 1957, which was ten times that of the previous year.

In December 1957, regulations were changed to lower down payments on MHA mortgages and the availability of another \$150 million for low-cost homes was announced. Result of these measures was that in 1958 the number of housing starts broke all records by reaching nearly 165,000, of which almost 85,000 were MHA starts, and of these nearly 59,000 were financed by CMHC.



1 It is interesting to note that if CMHC direct loans
2 had been at the pre-1957 rate of approximately
3 3,000 per year the total number of housing starts
4 in 1958 would still have been approximately
5 128,000, which would have been a 5% increase
6 over 1957 and a slight increase over 1956.

7
8 4.10 During the latter part of 1958 no further
9 special measures were taken to stimulate house
10 building, except that in September additional
11 quotas were given to builders in connection
12 with the direct loans for low-cost houses.

13 4.11 In the early part of 1959 builders were
14 working on the low-cost house program which had
15 been authorized late in 1958. When the funds for
16 this program approached exhaustion an additional
17 \$250 million was made available on September 1st.
18 As a result, 1959 showed 149,000 starts of which
19 62,000 were financed under NHA and of these
20 34,000 were direct CMHC loans.

21 4.12 In December 1959 the maximum interest rate
22 under NHA was raised to 6.3/4%. Even at this
23 rate, yields on other forms of investment were
24 so good in the early part of 1960 that private
25 lending institutions found NHA mortgages non-
26 competitive. The chartered banks had an
27 additional reason for not lending on NHA mortgages
28 as they considered the Bank Act prevented them
29 from charging more than 6% on such loans regardless
30

It is interesting to note that if CMHC direct loans had been at the pre-1957 rate of approximately 3,000 per year, the total number of housing starts in 1958 would still have been approximately 128,000, which would have been a 2% increase over 1957 and a slight increase over 1956.

During the latter part of 1958 no further special measures were taken to stimulate house building, except that in September additional quotas were given to builders in connection with the direct loans for low-cost houses.

In the early part of 1959 builders were working on the low-cost house program which had been authorized late in 1956. When the funds for this program approached exhaustion an additional \$250 million was made available on September 1st. As a result, 1959 showed 149,000 starts of which 62,000 were financed under MHA and of these 24,000 were direct CMHC loans.

In December 1959 the maximum interest rate under MHA was raised to 4.5%. Even at this rate, funds on other forms of investment were so good in the early part of 1960 that private lending institutions found MHA mortgages non-competitive. The chartered banks had an additional reason for not lending on MHA mortgages as they considered the Bank Act provided them from charging more than 4% on such loans regardless



1 of the ceiling being 6.3/4%. The rate of approval
2 on new NHA loans was therefore very low through-
3 out the early part of 1960, and at this time the
4 Government chose to further contract house
5 building by greatly limiting the funds available
6 for direct lending. Not only were the amounts
7 limited but income restrictions were attached
8 and merchant builders were made ineligible for
9 direct loans.

10 4.13 Despite the fact that NHA mortgages at
11 6.3/4% eventually became attractive to the
12 private lenders, other than chartered banks,
13 during the latter part of 1960, the total number
14 of NHA starts in that year was only approximately
15 35,000 and the total starts were only 108,878.
16 Toward the end of the year, the number of
17 unsold houses in some areas increased, leading
18 to the conclusion by some observers that lack of
19 demand was becoming an important influencing
20 factor on rate of housing starts. However,
21 there are many within the housing industry who
22 are not convinced that this conclusion was
23 entirely valid.

24
25 4.14 Late in 1960 the Housing Act was liberalized
26 to a considerable degree by raising the maximum
27 loan, extending the term, increasing the percentage
28 of loan and withdrawing all income ceilings.
29 As a result 59,186 starts or 47.1% of the total
30 125,577 housing units built in 1961 were financed



of the ceiling being 6.3%. The rate of approval on new FHA loans was therefore very low throughout the early part of 1960, and at this time the government chose to further restrict housing building by greatly limiting the funds available for direct lending. Not only were the amounts limited but income restrictions were attached and merchant builders were made ineligible for direct loans.

4.13

Despite the fact that FHA mortgages at 6.3% eventually became attractive to the private lenders, other than chartered banks, during the latter part of 1960, the total number of FHA starts in that year was only approximately 35,000 and the total starts were only 108,878. Toward the end of the year, the number of unsold houses in some areas increased, leading to the conclusion by some observers that lack of demand was becoming an important influencing factor on rate of housing starts. However, there are many within the housing industry who are not convinced that this conclusion was entirely valid.

4.14

Rate in 1960 the Housing Act was liberalized to a considerable degree by raising the maximum loan, extending the term, increasing the percentage of loan and withdrawing all income ceilings. As a result 52,185 starts or 47.1% of the total 109,577 housing units built in 1961 were financed



1 under the National Housing Act.

2
3 Fluctuations of NHA Lending

4 4.15 The principal difficulties of the house
5 building industry since 1954 have arisen from
6 the wide year to year fluctuations in the number
7 of houses started. From a total of 113,500 in
8 1954 the industry attained a peak of 164,600 in
9 1958, followed by a contraction of almost 35% in
10 two years to less than 109,000 in 1960. Such
11 fluctuations tax the resources of the industry and
12 attract marginal operators at the peak, and
13 cause unemployment and bankruptcies in the
14 subsequent contraction. The overall result is
15 poor efficiency, unnecessarily high costs and
16 serious economic disruption.

17 4.16 Appendix "D" is a chart of dwelling starts
18 divided between NHA starts and others for the
19 period 1951 to 1961. The outstanding feature
20 of this chart is the extreme variation which
21 occurred in the number of dwelling starts
22 following the effective date of the National
23 Housing Act, 1954, but particularly in the years
24 1957 to 1960 inclusive. It should be noted that
25 the rate of conventional mortgage starts was quite
26 stable in this period, with practically all of the
27 variation occurring in the NHA starts.

28 4.17 Reference to Appendix "D" reveals that the
29 period of widest fluctuation in dwelling starts
30

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1 was also the period in which CMHC direct loans were
2 an important part of the total and were showing
3 similar wide swings. The 1958 peak occurred
4 simultaneously with a fair rate of lending by
5 chartered banks and other private lenders and a
6 record rate of lending by CMHC. The period of
7 deflation of 1960 was accompanied by extreme
8 contraction of chartered banks and CMHC loans,
9 only slightly offset by some increase in loans
10 by other approved lenders.

11 4.18

12 As mentioned previously, there was a belief
13 in some quarters that the low rate of housing
14 starts in 1960 was due to slackening of demand
15 rather than non-availability of funds. The
16 Association does not regard this contention as
17 being proven. With CMHC loans not available to
18 builders in the early part of that year, with
19 the chartered banks in effect making no mortgage
20 loans and with the other private lenders attracted
21 away from mortgage loans by the better return on
22 other investments, it was impossible for merchant
23 builders to plan or organize their operations for
24 the year 1960. The fluctuation was the result of
25 varying availability of NHA mortgage funds rather
26 than demands of the market.

27 4.19

28 The fact that demand continued good is borne
29 out by the rate of conventional starts which were
30 off only moderately from 1959 and still represented
approximately 75,000 starts. Furthermore, as soon

was also the period in which G.M.C. direct loans were an important part of the total and were showing similar wide swings. The 1958 peak occurred simultaneously with a fair rate of lending by chartered banks and other private lenders and a record rate of lending by G.M.C. The period of deflation of 1950 was accompanied by extreme contraction of chartered banks and G.M.C. loans, only slightly offset by some increase in loans by other approved lenders.

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The fact that demand continued good is borne out by the rate of conventional loans which were off only moderately from 1949 and still represented approximately 75,000 starts. Furthermore, as soon



1 as the private lenders, other than chartered
2 banks, began to be attracted by NHA mortgages in
3 the latter part of the year they had no difficulty
4 in substantially increasing their rate of lending.
5 It is probable that the demand for dwellings is
6 flexible to some extent and that given a high rate
7 of national income such as we have been enjoying,
8 the demand can be expanded somewhat by using good
9 selling methods to move well designed houses
10 offered at reasonable prices and on favourable
11 terms. Presumably CMHC recognized this probability
12 in establishing its more liberal financing and
13 repayment terms in December 1960.

14 4.20

15 It seems clear that CMHC re-entered the
16 direct lending field on a large scale in 1957
17 because in spite of the hopes expressed for the
18 National Housing Act, 1954, private sources were
19 then failing to provide sufficient capital to
20 support a house building program which would
21 satisfy the housing needs of the country and
22 contribute its reasonable share towards relief
23 of unemployment. In any event, the move was
24 successful and the trend was reversed. Why
25 CMHC then continued to a record rate of lending
26 in 1958 when the approved lenders were making
27 substantial amounts of funds available is not
28 so clear. Certainly the resulting peak of house
29 building was not of benefit to the country in
30 any respect except perhaps, that of short term



1 unemployment relief. The house building industry,
2 called upon to expand at such a rate, could not
3 possibly be efficient. New and inexperienced
4 operators went into business, untrained or partly
5 trained workers were employed, land development
6 and provision of services could not be as orderly
7 as it should have been. If there was a failure
8 of demand in 1960 it may have been due, in part
9 at least, to the overstimulated building of low-
10 cost homes in 1958.

11
12 4.21 The momentum of the 1958 program carried
13 over into 1959, so that even though all lenders
14 were making fewer loans there was still a high
15 rate of activity in house building. In 1960,
16 however, with the rate of lending by other
17 lenders declining precipitately in the early part
18 of the year, CMHC accentuated the trend by
19 limiting the total amount available for direct
20 loans, by refusing to make loans to builders and
21 by surrounding older loans with tight restrictions.

22 4.22 Presumably the need to supply adequate
23 housing and to provide employment in house
24 building had yielded priority to other consider-
25 ations, such as, perhaps, a reduction in Govern-
26 ment borrowing. There is, of course, nothing
27 wrong with a move toward economy, however,
28 sudden curtailment of one of the principal
29 sources of NHA funds, that is CMHC, caused or
30 contributed to a situation where the housing



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and provision of services could not be as efficient
as it should have been. If there was a falling
of demand in 1930 it may have been due, in part
at least, to the overstimulated building of low-
cost homes in 1928.

4.21

The momentum of the 1928 program carried
over into 1929, so that even though all lenders
were making fewer loans there was still a high
rate of activity in house building. In 1930,
however, with the rate of lending by other
lenders declining precipitately in the early part
of the year, OHSB accentuated the trend by
limiting the total amount available for direct
loans, by refusing to make loans to builders and
by surrounding other loans with tight restrictions

4.22

Presumably the need to supply adequate
housing and to provide employment in house
building had yielded priority to other consider-
ations, such as, perhaps, a reduction in Govern-
ment borrowing. There is, of course, nothing
wrong with a move toward economy, however,
and the curtailment of one of the principal
sources of FHA funds, that is OHSB, seemed to
be justified as a stimulus where the housing



1 industry was deflated by more than one-third in
2 a period of only two years. It is obvious that
3 no industry can be efficient or attractive for the
4 entrepreneur or worker under such circumstances.
5 The housing industry has been publicly applauded
6 for having held the cost of construction relatively
7 constant over the last few years. Certainly a
8 much better job could have been done if the
9 violent fluctuations could have been avoided.

10 4.23 It seems to the Association that the
11 difficulties of this industry start with the
12 fact that the National Housing Act, 1954, failed
13 to "broaden the supply of mortgage money by making
14 that form of investment more attractive, increasing
15 the number of lenders and making more money
16 available for mortgage lending." When CMHC
17 attempts to remedy that failure by direct lending,
18 two important disadvantages emerge:

19
20 4.24 The control of the rate of the activity
21 ceases to be subject to economic laws and becomes
22 arbitrary; to keep the rate stable requires a
23 degree of wisdom, judgment and foresight which it
24 is perhaps unreasonable to expect. The control
25 of the rate of activity inevitably becomes subject
26 to political considerations, which may have no
27 relation whatever to the housing requirements of
28 the country, the creation of steady employment,
29 or the need for efficiency in the house building
30 industry.



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It seems to the Association that the difficulties of this industry start with the to "proceed the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending." When CMHC attempts to remedy that failure by direct lending, two important disadvantages emerge:

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1 4.25

2 The Government raises the funds which it
3 loans on direct mortgages, by borrowing from the
4 private sector of the economy through the sale of
5 Government bonds. The Government is thus really
6 just an intermediary, rather than a true source
7 of funds, in its direct mortgage lending. If
8 direct Government lending were reduced or
9 terminated, the Government could reduce its bond
10 selling by an equal amount. Thus, while the flow
11 of mortgage funds in the form of direct loans
12 would tend to dry up, private sources would have
13 a corresponding amount of money available for
14 mortgage investment. The total demand for funds
15 from the private sector would not be increased
16 at all.

17 4.26

18 The Association, therefore, feels that it is
19 extremely important that the whole matter of
20 financing residential construction should be
21 revised with the hope that ways and means may
22 be found ultimately to supply funds almost entirely
23 from private sources, with the Government restrict-
24 ing itself to the insuring of mortgages, the
25 establishment of rules and regulations and a
26 minimum amount of direct lending in areas where
27 approved lending facilities are not available,
28 or not adequate to meet the local demand.

29 4.27

30 It is not to be expected that any system
of financing will entirely stabilize the housing
industry. However, it is believed that if

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The Association, therefore, feels that it is
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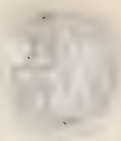


1 supplies of funds ebb and flow in response to
2 ordinary economic financial laws, the fluctuations
3 will be less violent, they will be more foreseeable
4 and the builder will be better able to protect
5 himself against them. Through making rules and
6 regulations CMHC can, at times of easy avail-
7 ability of labour and materials, give some
8 stimulation to house building and thereby stabilize
9 both that industry and total employment. Any
10 attempt to go further and unstabilize the house
11 building industry in order to give greater
12 employment relief is, in the opinion of the
13 Association, unsound and unfair to this industry.
14 It is very timely for the Royal Commission to
15 investigate this whole subject, in order that it
16 may recommend steps which will prevent another
17 cycle of wild fluctuations such as took place
18 since the passing of the National Housing Act,
19 1954. It is necessary to determine what has
20 prevented the accomplishment of the aims of the
21 National Housing Act, 1954, and what amendments
22 to the Act, changes in its administration or
23 improvements in its use are necessary to obtain
24 its original objective - an objective, we believe,
25 as sound today as it was in 1954.

26
27 Inadequate Base of NHA Mortgage Funds

28 4.28

29 Table 2 shows the housing starts by
30 principal sources of financing in 1961. 59,186
units were started under the Act in that year.



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35,334 by approved lenders and 23,852 by CMHC.

CMHC made the greatest number of direct loans numbering 20,301 for regular housing units plus an additional 3,551 for limited dividend units.

Their loans were closely followed by those of the Life Insurance Companies who made 19,988.

The Loan and Trust Companies made a total of 15,330 while all the Chartered Banks together accounted for only 16 NHA loans in 1961.

4.29 Evidence of the fact that insufficient private sources of mortgage money exist is contained in the 1961 Annual Report of CMHC which states "Mortgage funds for new housing from approved lenders were in fairly good supply in 1961 but, in the absence of loans from chartered banks, they did not prove adequate to meet all demands. They were supplemented, in the National Housing Act sector, by public funds in the form of loans by the Corporation for which there was a steady demand throughout the year."



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TABLE 2

HOUSING STARTS BY PRINCIPAL SOURCES OF
FINANCING - 1961

| Source of Financing | Number of Units (1) | Per- Cent |
|---|---------------------------|--------------|
| <u>Public</u> | | |
| Direct Government House-building | 2,778 | 2.2 |
| <u>Private</u> | | |
| <u>Loans Under NHA</u> | | |
| Direct CMHC Loans | | |
| Limited-Dividend | 3,551 | 2.8 |
| Other | 20,301 | 16.2 |
| Sub-total | 23,852 | 19.0 |
| <u>Approved Lenders</u> | | |
| Chartered Banks | 16 | .0 |
| Life Insurance Companies | 19,988 | 15.9 |
| Loan, Trust Companies, etc. | 15,330 | 12.2 |
| Sub-total | 35,334 | 28.1 |
| <u>Conventional Institutional Loans</u> | | |
| Life Insurance Companies | 24,347 | 19.4 |
| Loan, Trust Companies, etc. | 13,969 | 11.1 |
| Sub-total | 38,316 | 30.5 |
| <u>Government Assistance other than NHA</u> | | |
| (Includes Government Loans under the Veterans' Land Act, the Farm Credit Act and Guarantees under the Farm Improvement Loans Act.) | 1,993 | 1.6 |
| <u>Other Financing</u> | 23,304 | 18.6 |
| <u>TOTAL</u> | <u>125,577</u> | <u>100.0</u> |

4.30 In turning to the CMHC Annual Report of 1960 it also pointed out the lack of private money by stating, "Although there was a very marked increase in NHA housing starts financed by Life Insurance Companies and Trust and Loan Companies this was not sufficient to offset the virtual withdrawal of the banks and the smaller number financed by the Corporation as a residual

(1) CMHC "Canadian Housing Statistics - 1961" - Table 35.



HOUSEHOLD STAMPS BY PERSONAL SOURCES OF
FINANCING - 1951

| Source of Financing | Amount | Date |
|--|--------|------|
| Direct Government Home-Relief | | |
| Federal Reserve Bank Federal Reserve Bank Federal Reserve Bank Federal Reserve Bank | | |
| Approved Lenders Approved Lenders Approved Lenders Approved Lenders | | |
| Conventional Residential Loans Life Insurance Companies Life Insurance Companies Life Insurance Companies | | |
| Government Assistance other than FHA Federal Reserve Bank Federal Reserve Bank Federal Reserve Bank | | |
| The Farm Improvement Loan Act (1951) | | |

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1 lender."

2
3 4.31 The Minister of Public Works also mentioned
4 this same condition when he said (1) ".....
5 The Federal Government has found it necessary
6 throughout the last quarter century to provide
7 financial assistance for new housing. This has
8 been done through joint undertakings with the
9 provinces and municipalities and by various
10 systems of guarantees, loan insurance and direct
11 lending."

12 4.32 "But the guiding principle has always remained
13 that, although the Federal Government may act to
14 stimulate the market for new house building and
15 help to meet the demand so generated, it should
16 not assume the direct responsibilities that
17 constitutionally belong to other governments or
18 that could be effectively borne by private
19 enterprise....."

20
21 4.33 "Now it is obvious that introduction of the
22 banks enabled us to tap a new source of funds for
23 residential construction. Previously, loans under
24 the Housing Acts had been made mainly by the life
25 insurance and trust and loan companies and,
26 although these companies had invested large sums
27 of money in mortgages, we had been faced - because
28 of our physical expansion - with periodic shortages
29 of funds. Moreover, there were clearly limits to

30 (1) Remarks by the Hon. David J. Walker, at the Eastern
Mortgage Conference, Mortgage Bankers Association
Montreal, May 18, 1961



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1 the extent to which we could continue to expect
2 the traditional lenders to carry mortgages in
3 their investment portfolios. In some instances,
4 the ratio of mortgage loans to total assets
5 began to be high and future investments would
6 have to depend upon the annual growth in assets
7 of these companies. These sources therefore
8 could not be looked to indefinitely for financing
9 an adequate housing program."

10 4.34 "There was one other factor. The joint
11 loan system required extensive use of Government
12 funds and we expected that, with introduction of
13 the insurance system, virtually all the money
14 needed would come - as it should - from private
15 sources. Obviously, there would be instances
16 where the Government might still have to use
17 public funds to make mortgage loans but these
18 would be confined to special programs - low-
19 rental housing, for example - or to lending
20 operations in areas not served by institutions."

21
22 4.35 "During the first few years after 1954
23 everything went according to plan. The banks
24 developed a taste for mortgage lending and seemed
25 anxious to build up their portfolios as quickly
26 as possible. As a matter of fact, at one time
27 some of the banks were making loans at less than
28 the maximum NHA interest rate."

29 4.36 "But we found that as soon as the banks
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"What we found was as soon as the banks



1 had invested what they considered to be a sound
2 proportion of savings deposits in this form of
3 security, their interest waned and we reverted
4 to our previous position. The growth of bank
5 assets did not elicit a sufficient flow of
6 mortgage funds to sustain an adequate volume of
7 lending and the difficulty was compounded when
8 we were obliged to raise the NHA interest rate
9 above 6%, the limit imposed by the Bank Act on
10 rates that may be charged by banks in this
11 country. I might also explain that the Government
12 attempts to keep the NHA rate in line with other
13 long-term borrowing rates....."

14
15 4.37 "The Government is still the lender of last
16 resort, we still act in a residual capacity.
17 But the extent of our participation in the
18 mortgage market has become much, much greater
19 than originally contemplated."

20 4.38 In view of the foregoing remarks by the
21 Minister and the figures which we have seen, it
22 appears obvious that there is an inadequate
23 base of residential mortgage funds available in
24 Canada without direct Government assistance. It
25 is also obvious that it was never intended that
26 the Government participate regularly as a
27 mortgage lender. This Association has recommended
28 in the past that the Government withdraw gradually
29 from direct lending operations and that suitable
30 alternative sources of financing be established



had invested what they considered to be a sound proportion of savings deposits in this form of security, their interest waned and we reverted to our previous position. The growth of bank

assets did not elicit a sufficient flow of

mortgage funds to sustain an adequate volume of lending and the difficulty was compounded when we were obliged to raise the NHA interest rate above 6%, the limit imposed by the Bank Act on

rates that may be charged by banks in this

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from direct lending operations and that suitable

alternative sources of financing be established



1 to replace its operations. So far these sources
2 have not been forthcoming.

3
4 The Chartered Banks and the NHA

5 4.39 The Canadian chartered banks at the end of
6 1961 had on deposit some \$7,618 million (1) of
7 personal savings but in spite of this enormous
8 fund, during 1961 they made NHA mortgage loans
9 in the amount of only \$211 thousand (2) far less
10 than their principal repayments (3). In fact
11 their mortgage loans outstanding decreased during
12 1961 by some \$18 million (4).

13 4.40 The banks control this huge reservoir of
14 personal savings yet, as we have seen, these
15 funds are no longer being channeled into
16 residential mortgages.

17 4.41 Table 3 shows the history of bank lending
18 since the passing of the National Housing Act,
19 1954. It is readily seen that their participation
20 and lack of it, could not help but materially
21 influence the Canadian housing industry. It is
22 to be noted particularly that the drop-off in
23 bank lending corresponded with the increase in
24 the NHA interest rate from 6.1/2% to 6.3/4% in
25 December 1959.

26 (Table 3 - p.30)
27

- 28 -----
28 (1) CMHC "Canadian Housing Statistics - 1961" - Table 42.
29 (2) CMHC "Canadian Housing Statistics - 1961" - Table 23.
30 (3) Bank of Canada - Annual Report 1961 - Page 62.
(4) Bank of Canada - Annual Report 1961 - Page 72.

to replace its operations. So far these sources have not been forthcoming.

The Canadian Banks and the NHA

The Canadian chartered banks at the end of 1961 had on deposit some \$7,675 million (1) of funds, during 1961 they made NHA mortgage loans in the amount of only \$111 thousand (2) far less than their principal repayments (3). In fact their mortgage loans outstanding decreased during 1961 by some \$16 million (4).

4.10

The banks' control over the reserves of personal savings yet, as we have seen, these funds are no longer being channelled into

Table 3 shows the history of bank lending since the passing of the National Housing Act, 1954. It is readily seen that their participation and lack of it, could not help but eventually influence the Canadian housing industry. It is to be noted particularly that the drop-off in bank lending corresponded with the increase in the NHA interest rate from 2.1% to 4.2% in December 1959.

(Table 3 - p. 10)



TABLE 3

NHA MORTGAGE LOANS APPROVED
BY THE CHARTERED BANKS. (1)

| <u>Period</u> | <u>Dwelling Units</u> | <u>Amount \$ 000</u> |
|---------------|---------------------------|--------------------------|
| 1952 | - | - |
| 1953 | - | - |
| 1954 | 16,906 | 158,460 |
| 1955 | 34,457 | 326,188 |
| 1956 | 15,896 | 158,360 |
| 1957 | 15,687 | 173,364 |
| 1958 | 26,135 | 300,445 |
| 1959 | 14,844 | 175,427 |
| 1960 | 89 | 1,050 |
| 1961 | 17 | 211 |

4.42

Table 4 shows the total assets in mortgage loans held by institutional lenders at the end of 1960. (This happens to be the most recent date for which these figures are at hand.) The chartered banks with the greatest total assets had only 5.7% of them invested in mortgages, while the life insurance companies had 42.5%, the loan companies 75.7% and the trust companies 36.3%.

TABLE 4

TOTAL ASSETS AND MORTGAGE LOANS
HELD BY INSTITUTIONAL LENDERS - 1960 (2)

(Millions of Dollars)

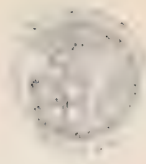
| <u>Approved Lender</u> | <u>Total Assets</u> | <u>Mortgage Loans Outstanding</u> | <u>Per Cent</u> |
|----------------------------|-------------------------|---|---------------------|
| Chartered Banks | 16,917 | 971 | 5.7% |
| All Life Companies | 8,040 | 3,412 | 42.4 |
| Loan Companies | 914 | 691 | 75.6 |
| Trust Companies | 1,302 | 472 | 36.3 |
| Other | 495 | 97 | 19.6 |
| TOTAL | 27,668 | 5,643 | 20.3% |

(1) CMHC "Canadian Housing Statistics - 1961" - Table 23.
(2) CMHC "Canadian Housing Statistics - 1961" - Table 49.



4.43

The annual requirements of funds for mortgage lending are a sufficiently high percentage of the annual personal savings that all depositories of personal savings should be permitted and encouraged to be active lenders in this field. This means particularly that the chartered banks must receive such permission and encouragement. It is therefore the recommendation of NHBA that the Bank Act be amended to permit the chartered banks to make mortgage loans at the prevailing NHA interest rate whatever it may be. Failing their active re-entry into mortgage lending, which they appear to view without enthusiasm, it is our further recommendation that legislation be enacted which would establish other channels through which personal savings may flow into mortgages. Two suggestions would be the passage of enabling legislation which would permit the establishment of Building Societies, patterned after those of the United Kingdom, which would be allowed to accept savings and invest them in mortgages, both insured and conventional. The second suggestion would be the passage of legislation which would permit the establishment of Building and Loan Associations and a mortgage banking system similar to those in the United States. By one manner or another it is imperative that a reasonable proportion of personal savings, now largely channeled into the chartered banks, flows into the mortgage market. Various legislative barriers now stand in the way of this



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lending are a sufficiently high percentage of the
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for the recommendation of the Board that the Board
be empowered to permit the extended period to make
mortgage loans of the type in which the interest rate
whatever it may be. Falling within active lending
into mortgage lending, which they appear to view
without much issue, is in our opinion recommended
that legislation be enacted which will authorize
other persons, although which persons' savings may
flow into mortgages. Two suggestions would be the
passage of enabling legislation which would permit
the establishment of Building Societies, or the
extension of the United Kingdom, which would be
allowed to accept savings and invest them in
mortgages, both insured and otherwise. The
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that a considerable proportion of personal savings
now largely unemployed and the extended period.
Active lenders now stand in the way of this



accomplishment.

4.44 Table 5 sets out the comparative financing of FHA and NHA insured mortgages by type of lender. This table is significant inasmuch as it shows that the National, State and Savings Banks contributed 36.8% of loan amounts in the United States in 1961, whereas our chartered banks in 1961 contributed less than .04%. Even in 1955, the year they loaned the greatest amount of money (\$326 million), our banks accounted for only 26.9% of the total NHA loans. (1)

4.45 This table also points out that the largest lenders in the United States are the Mortgage Companies while in Canada the Life Insurance Companies lead the group of approved lenders. The Savings and Loan Associations too were significant lenders, accounting for 10.5% of the U.S. total.

4.46 FHA, unlike CMHC, does not participate in providing direct Government money for mortgages but merely acts as the insuring agency. For instance, this table shows that in 1961 CMHC provided 37.5% of the NHA mortgage money in Canada while in the United States, 100% was supplied by the private sector of lenders and not the Government. This is the condition which NHBA would like to see Canada reach eventually.

(1) CMHC "Canadian Housing Statistics - 1955" (eth Qtr.) Table 18.

accomplishment.

Table 2 sets out the comparative financing

of FHA and NHA financed mortgages by type of
lender. This table is significant inasmuch as it
shows that the National, State and Savings Bank
contributed 88% of total amounts in the United
States in 1961, whereas for reported years in
1961 contributed less than 14%. Even in 1961,
the year they loaned the greatest amount of money
(\$130 million), our banks accounted for only
26.4% of the total FHA loans.

4.45 This table also shows our share in the largest

lenders in the United States and the 10 largest
companies while in Canada the 10 largest
companies lead the group of approved lenders.
The Savings and Loan Associations too were
significant lenders, accounting for 30.5% of
the U.S. total.

4.46 NHA, unlike FHA, does not participate in

providing direct Government money for mortgages
but merely acts as the financing agency. For
instance, this table shows that in 1961 NHA
provided 3% of the total mortgage money in Canada
while in the United States, 10% was supplied by
the private sector of business and not the
Government. This is the condition which NHA
would like to see Canada reach eventually.

(3) NHA "Reported Housing Statistics - 1961"



TABLE 5

COMPARATIVE FINANCING OF FHA (U.S.)
AND NHA (CAN.) INSURED MORTGAGES
BY TYPE OF LENDER - 1961

(Percent)

| | U.S. (1) | CANADA (2) |
|------------------------------------|---------------|------------|
| Chartered Banks (Can.) | Less than | .04% |
| Banks (U.S.) | | |
| National Bank | 17.0) | |
| State Bank | 11.2) | |
| Savings Bank | 8.6) | |
| Life Insurance Companies | 3.6 | 35.4 |
| Trust Companies (Can.) | N.A | 24.3 |
| Loan Companies & Others (Can.) | N.A | 2.7 |
| Mortgage Companies (U.S.) | 45.0 | N.A. |
| Savings & Loan Associations (U.S.) | 10.5 | N.A. |
| Other | 4.1 | N.A. |
| F.H.A. (U.S.) | Less than .05 | N.A. |
| C.M.H.C. (Can.) | N.A. | 37.5 |
| TOTAL | 100.0% | 100.0% |

4.47 During the period when the chartered banks were actively participating in mortgage lending under the National Housing Act, they proved to be a particularly versatile media for the distribution of funds, especially in the more remote sections of the country. One characteristic of the residential mortgage activities of the other lenders, such as the life insurance companies, the loan companies and the trust companies has been that they prefer to distribute their loans in areas which they can conveniently service and inspect. This means that the more heavily populated sections of the country and those where these companies maintain their principal offices, have been the usual recipients of most of the loans from these sources.

(1) Fourteenth Annual Report - Housing & Home Finance Agency, 1961, Table 3 - 15.

(2) CMHC - "Canadian Housing Statistics - 1961" - Table 26.

TABLE 1

PERCENTAGE OF TOTAL ASSETS OF THE U.S.

BY TYPE OF INSTITUTION - 1951

(Percent)

| | | |
|----|------------------------------------|---------------|
| 1 | Chartered Banks (Gen.) | Less than .01 |
| 2 | Banks (U.S.) | |
| 3 | State Bank | 30.8% |
| 4 | Savings Bank | 11.2% |
| 5 | Life Insurance Companies | 8.6% |
| 6 | Trust Companies (Gen.) | 3.5 |
| 7 | Loan Companies & Others (Gen.) | N.A. |
| 8 | Savings & Loan Associations (U.S.) | 25.4 |
| 9 | Other | 24.3 |
| 10 | F.H.A. (U.S.) | 2.7 |
| 11 | Less than .01 | N.A. |
| 12 | TOTAL | 100.0% |

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were actively participating in mortgage lending

under the National Housing Act, they proved to be

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these companies maintain their principal offices,

have been the usual recipients of most of the

loans from these sources.

(1) Fourteenth Annual Report - Housing & Home

Finance Agency, 1951, Table 2 - 12



1 4.48

2 The chartered banks, having an extensive
3 national coverage of branch banks in almost every
4 community, made mortgage loans available for the
5 first time in many of the smaller centres. The
6 Atlantic provinces for instance benefitted greatly
7 by the activities of the banks, since only a few
8 of the other lenders regularly are active in that
9 area.

10 4.49

11 Perhaps the principal reasons for the
12 discontinuance of mortgage lending by the banks,
13 aside from the interest rate, has been their
14 experience that the NHA mortgages are not really
15 100% insured, and the fact that mortgages do not
16 represent a readily disposable asset. The
17 creation in Canada of an active secondary mortgage
18 market would appear to be the best solution to
19 this latter difficulty but this will be dealt with
20 a little later in this submission.

(paras. 4.83 - 4.92)

21 Refinancing of Existing Houses.

22 4.50

23 The National Housing Act provides for the
24 insuring of mortgages by approved lenders on new
25 houses only. It does not provide, in any way,
26 for insured mortgage loans on existing dwellings.
27 Many owners of existing houses are confined to
28 accommodation which has become inadequate or
29 unsuitable for their present needs because of
30 their inability to adequately refinance such
dwellings for resale. By adequate refinancing



1 we mean financing to the same extent and under the
2 same terms as that provided for new housing under
3 the National Housing Act. There is a vast amount
4 of our housing stock virtually frozen in this
5 manner because the only available mortgages are
6 conventional mortgages limited to 66.2/3% of the
7 value of the property - possibly supplemented by
8 a second mortgage at a high rate of interest.

9
10 4.51 Under the National Housing Act a home owner
11 may now finance a new house with an insured first
12 mortgage based on 95% of the first \$12,000 of
13 lending value and 70% of the remainder, up to
14 certain specified limits for each dwelling unit,
15 depending on type and size. This sort of financing
16 allows low initial down payments, particularly
17 since the term of the mortgage may extend for 35
18 years. Interest, which is now set at 6.1/2% per
19 annum is moderate and probably as low as could
20 reasonably be expected, considering other prevail-
21 ing interest rates.

22 4.52 Since this sort of financing is not available
23 on existing houses, it is much easier for the
24 prospective home owner with limited means to buy
25 a new house than it is to purchase an existing
26 house. Because new houses are generally built
27 in the suburbs, it follows then that new home
28 owners are almost automatically forced to move
29 further and further from the centres of our
30 cities, while home owners wishing to dispose of

same terms as that provided for new housing under the National Housing Act. There is a vast amount of our housing stock currently frozen in this manner because the only available mortgages are conventional mortgages limited to 65% of the value of the property - possibly supplemented by a second mortgage at a high rate of interest.

Under the National Housing Act a home owner may now finance a new house with no more than a mortgage based on 75% of the time \$14,000 or lending value and 75% of the remainder, up to certain specified limits for each dwelling unit, depending on type and area. This sort of financing allows low initial down payments, particularly since the term of the mortgage may extend for 35 years. Interest, which is now set at 5.125% per annum is moderate and probably as low as could reasonably be expected, considering other prevailing interest rates.

Since this sort of financing is not available on existing houses, it is much easier for the prospective home owner with limited means to buy a new house than it is to purchase an existing house. Because new houses are generally built in the suburbs, it follows that new home owners are also geographically forced to move further and further from the centers of our cities, with home owners wishing to dispose of



1 their houses in more central locations have
2 great difficulty in finding buyers capable of
3 meeting the high down payments which are required.

4
5 4.53 In order to supplement the smaller conventional
6 mortgages, a thriving market in second mortgages
7 has been created. Interest rates on second
8 mortgages are frequently higher than on first
9 mortgages, the term is generally shorter and there
10 is usually a substantial bonus to be paid in
11 addition. The actual interest rate, when all this
12 is considered, can run as high as 40% on some
13 second mortgages and often does exceed 20%.
14 Unfortunately many unsuspecting home purchasers,
15 when buying older houses, assume second mortgages
16 which they later find great difficulty in carrying
17 and not a few lose their entire investment as a
18 result.

19 4.54 If refinancing were permitted under the
20 National Housing Act, the original lender could
21 supply a new mortgage at the current NHA interest
22 rate, based on the appraised or actual current
23 value of the property. The lender could retire
24 the present loan and supply merely the difference
25 to bring it up to the amount of the new loan.
26 Since some earlier loans carry interest rates
27 below the current rate, the lender probably would
28 be agreeable to the refinancing. The new loan
29 could carry the usual mortgage insurance
30 protection which would be paid for by the 2%



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second mortgages and often does exceed 50%.

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when buying other houses, take second mortgages

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supply a new mortgage at the current HUD interest

rate, based on the appraised or actual current

value of the property. The lender could realize

the gross of loan and simply merely pay difference

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below the current rate, the lender probably would

be susceptible to the refinancing. The new loan

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1 mortgage insurance fee as in the case of loans
2 on new houses. It seems only sensible to continue
3 to utilize existing houses in the older parts of
4 our cities, where schools exist and where the
5 streets and sewers are installed, rather than let
6 neighbourhoods gradually deteriorate through disuse.

7
8 4.55 Shortly after the Second World War a great
9 many inexpensive houses were built. The owners
10 of these, in many cases, have families which have
11 outgrown their accommodation. Like the owners
12 of the older houses, these people cannot resell
13 because of their inability to refinance their
14 homes. If this were possible, there would be a
15 tremendous supply of low cost dwellings available
16 for persons of low income. These buildings
17 cannot be reproduced at their initial cost in
18 today's market. Prospective purchasers here too
19 must look to the suburbs to fill their housing
20 needs. Our whole financial structure under the
21 National Housing Act forces people to the outskirts
22 in search of new houses with low down payments,
23 whereas many might prefer to purchase in more
24 central locations if refinancing was available.

25 4.56 If the home owner cannot resell his house
26 in order to buy a new one, the builder likewise
27 cannot take it in on trade because he finds him-
28 self in a similar situation when he comes to
29 dispose of it. In effect then, without NHA
30 refinancing there is no real trade-in market for



Mortgage insurance fee as in the case of loans on new houses. It seems only reasonable to continue to utilize existing houses in the older parts of our cities, where schools exist and where the streets and sewers are installed, rather than let neighbourhoods gradually deteriorate through dilapidation.

Shortly after the Second World War a great many inexpensive houses were built. The owners of these, in many cases, have families which have been unable to move into them. These people cannot really be expected to refinance their homes. If this were possible, there would be a tremendous supply of low cost dwellings available for persons of low income. These buildings cannot be reproduced at their initial cost in today's market. Prospective purchasers here too must look to the suburbs to fill their housing needs. Our whole financial structure under the National Housing Act forces people to the outskirts in search of new houses with low down payments, whereas many might prefer to purchase in more central locations if refinancing was available. If the home owner cannot refinance his home in order to buy a new one, the builder likewise cannot take it in on trade because he finds himself in a similar situation when he comes to dispose of it. In effect then, without the refinancing there is no new construction and no



1 used houses. This prevents people who wish to
2 do so from purchasing new houses since the builder,
3 cannot take in the present house and they cannot
4 sell it. They are locked in.

5
6 4.57 An effective trade-in market should be an
7 essential element in the housing industry. The
8 freedom to exchange old and new houses is one
9 of the necessary ingredients to movement and
10 healthy activity within the industry.

11 4.58 In the United States, under the Federal
12 Housing Administration, new and existing houses
13 are financed under exactly the same terms. A
14 great deal of experience has been accumulated
15 since 1934 when this legislation came into effect.
16 So important is the refinancing of existing
17 buildings that last year FHA insured loans on
18 older properties amounting to 63% of its total
19 commitments, while those of new properties
20 amounted to only 37%.

21
22 4.59 Mr. Neal Hardy, the FHA Commissioner, in a
23 recent interview stated that the high percentage
24 loans available for older houses are responsible
25 for the great degree of activity which prevails
26 in the U. S. housing market. He said that he
27 regarded the older house market of vital
28 importance to the housing industry as by far
29 the greatest number of new house purchasers
30 come from the group which already own homes but



used houses. This creates people who wish to
to so from purchasing new houses since the building
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4.87 An effective trade-in market should be an
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positive activity within the industry.

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the greatest source of new house purchases
come from the group which already own homes but



1 wish to exchange them for new ones. Mr. Hardy
2 said that the insuring of loans on older houses
3 was an integral function of FHA and that he could
4 not see how it would be possible to operate without
5 it and still retain an active housing market.

6 4.60 When asked for his opinion regarding the
7 possible diversion of available mortgage funds in
8 Canada from new housing to old, should the terms
9 of our National Housing Act be expanded as
10 suggested, Mr. Hardy thought there certainly would
11 be a great deal of mortgage money diverted. He
12 pointed out, however, that Canada does not have
13 the same broad base of available funds for mortgage
14 purposes which exists in the United States. Our
15 banks, for instance, he said, unlike those of the
16 U.S., do not at present participate in mortgage
17 lending. This deprives us of an enormous fund
18 of private savings, which otherwise might find
19 its way into mortgages.

20
21 4.61 On March 5th, 1962 the National House Builders
22 Association presented a brief to the Minister of
23 Public Works requesting that the terms of the
24 National Housing Act be expanded to include the
25 refinancing of existing houses. We did not
26 suggest that the Government make direct loans
27 on existing dwellings, but rather that approved
28 lenders be permitted to make the higher percentage
29 loans presently allowed and insured on new houses,
30 under the Act. We believe that this measure would



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loans presently allowed and insured on new houses,
under the Act. We believe that this method would



1 permit the best utilization of Canada's residential
2 inventory, while at the same time we are of the
3 opinion that it would stimulate a considerable
4 degree of new housing.

5
6 4.52 It was our thought that limitations should be
7 placed on just what cases could be eligible for
8 refinancing. We had in mind that applications
9 would be limited to houses for sale by their owners
10 when they wished to purchase a new house. There
11 would be no consideration given to a person who
12 simply wished to place a new mortgage on his
13 house in order to raise funds for some other
14 purpose. The privilege of refinancing, we suggest,
15 should also be extended to builders who wish to
16 take in houses in trade on new houses or other
17 existing houses which they own. In other words,
18 an element of sale or exchange should be a
19 prerequisite to eligibility for refinancing.

20 4.63 Where a mortgage presently is in existence,
21 the mortgagee, we thought, should be given the
22 first opportunity to refinance the house. In
23 cases where present mortgages legally cannot be
24 discharged or where the present mortgagee is
25 unwilling to discharge his mortgage, then
26 refinancing would not be possible. Any bonus
27 payments applicable to discharge the mortgage
28 would form a part of the costs of refinancing.
29 One other cost would be the 2% mortgage insurance
30 fee which would apply on the new mortgage, paid



1 for by the applicant, just as at present in the
2 case of new NHA mortgage loans.

3
4 4.64

5 It might be beneficial to spend a moment
6 attempting to assess the effect of such a re-
7 financing program on present mortgage lenders.
8 Those institutions, which already hold mortgages
9 on existing houses at interest rates below the
10 present 6.1/2% NHA rate, would probably welcome
11 the opportunity to refinance their old paper at
12 the new and higher rate. In fact it might turn
13 out that those in this category would be inclined
14 to divert all possible funds towards this end.
15 The prospect might prove of sufficient attraction
16 to persuade them to make available for this specific
17 purpose a greater percentage than usual of their
18 investment portfolios. As we mentioned before,
19 only the amount of new money required to bring
20 the existing mortgage up to the amount of the
21 new loan would be necessary and not 100% of the
22 new loan figure.

23
24 4.65

25 Where existing mortgages are held by lenders,
26 not presently approved to loan under the Act,
27 there might be sufficient inducement for them to
28 apply for approval in order to participate in
29 refinancing their existing loans. On the other
30 hand, it is probable that they enjoy present
interest rates as high or higher than the NHA
6.1/2% rate, in which case they would be content
to retain their present loans.



4.66

The companies most adversely affected by an NHA refinancing program would be those providing conventional mortgages. They would not be competitive with $66\frac{2}{3}\%$ maximum loans at interest rates around 7%, in comparison with NHA loans up to 95% at $6\frac{1}{2}\%$ interest. The decision remains though whether the public would not be best served by the availability of the latter. Those companies not presently approved would likely seek approved lender status in order to compete for business.

4.67

Second mortgages would no longer be in demand to fill the gap between conventional loans at $66\frac{2}{3}\%$ and some higher figure. This would relieve home purchasers of the heavy interest burden many have been forced to assume in order to secure much needed financing.

4.68

There would appear to be no valid reason why the percentage of loan under NHA should not be the same on older houses as it is presently on new houses. The loan will be 100% Government insured and provided the lending value is determined by a proper appraisal procedure the approved lenders making such loans will have the same degree of protection that they presently have on new dwellings. This practice is followed in the United States where their National Housing Act Title II, Section 203(b) authorizes FHA to insure mortgages, on new and existing one-to-four family dwellings, from \$22,500 to \$35,000. Exactly the



1 same percentage of loan and the same terms apply
2 equally on the new and existing properties.

3
4 4.69 NHBA therefore wholeheartedly recommends that
5 the provisions of the National Housing Act, 1954
6 be expanded to include the insuring of mortgages
7 on existing houses in the same manner and to the
8 same extent as mortgages are presently insured on
9 new houses under the Act. The fact that the need
10 for additional sources of mortgage funds will
11 inevitably result, merely strengthens our previous
12 assertions that there is in Canada an inadequate
13 base of residential mortgage financing.

14 The NHA Interest Rate

15 4.70 There has been considerable agitation in
16 some quarters to have the NHA interest rate
17 lowered as a means of relieving the burden upon
18 new home owners. One political party in fact,
19 during the recent election campaign, advocated the
20 lowering of the rate to 3%. We have already seen
21 the effect of too low a rate when approved lenders
22 progressively withdrew from insured lending under
23 NHA during 1959. The rate had stood at 6% from
24 January 1957 to December 1959. Rising interest
25 rates in other quarters wooed away the funds of
26 the lenders. In 1959 they made only 26,600
27 loans compared with 44,500 the year before. In
28 December 1959 the NHA interest rate was increased
29 from 6% to 6.3/4% and only then did the life
30 insurance, the trust and the loan companies respond.



same percentage of loan and the same terms apply equally on the new and existing properties.

4.69 NHA therefore who have already recommended that the provisions of the National Housing Act, 1959 be expanded to include the issuing of mortgages on existing houses in the same manner and to the same extent as mortgages are presently insured on new houses under the Act. The fact that the need for additional sources of mortgage funds will inevitably result, merely strengthens our previous assertion that there is in Canada an inadequate base of residential mortgage financing.

The NHA Interest Rate

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4.71

In considering the interest rate on NHA mortgages, it should be borne in mind that, to the borrower, this is a minor consideration compared to the fact that, due to the Government guarantee, he can purchase a home with a relatively small down payment and, due to the length of time over which the principal is repaid, at a relatively low monthly cost. To the borrower, the difference between a rate of $6\frac{1}{2}\%$ and 7% is not the primary factor, whereas to the lender it is very important. It is important that the ceiling, if imposed by the Government, should not be a factor in preventing the flow of funds into the mortgage market. Competition among lenders would keep the interest rate at the proper level, were there sufficient numbers of them anxious to invest in NHA mortgages.

4.72

The maximum interest rate permitted on NHA loans periodically is out of line with interest rates in other parts of the capital market according to one prominent economist (1). The volume of NHA funds which private lenders are willing to supply varies with the attractiveness of NHA loans relative to alternative investment outlets. This fact has been demonstrated repeatedly, this expert asserts. With conventional loans there is not the same problem of misalignment of interest rates, since there is no statutory limit on conventional rates.

4.73

THE NHA rate gets out of line periodically

(1) J.V. Poapst, Assistant Professor, Finance, Institute of Business Administration, University of Toronto.



1 because of its relative inflexibility. It is
2 changed from time to time but not often enough or
3 by enough to keep it consistently attractive.
4 Changing it creates problems. The onus for
5 change falls upon the Government. Increases
6 usually produce adverse public reactions. It is
7 natural that the Government should delay increasing
8 the rate until it is certain that an increase is
9 necessary. A decline in the volume of private
10 lending strengthens the case for increasing the
11 rate. Adverse public reaction does not attend
12 reductions in the rate. They are welcomed.
13 There is, however, a problem created by reductions
14 in the rate. This is a problem in the lending
15 process itself. All changes in the rate of course
16 are widely publicized. When the rate is reduced,
17 prospective borrowers whose applications for
18 loans are already in process, seek and usually
19 obtain loans rewritten at the lower rate.
20 Refraining from lowering the rate following minor
21 decreases in other market rates limits the number
22 of upheavals in the lending process. This also
23 tends to restrain increases in the rate until
24 it becomes clear that the higher rate would not
25 soon have to be reversed.

26 4.74

27 The relative inflexibility in the NHA rate
28 has the disruptive effect of encouraging speculation
29 over changes in the rate. This tends to create
30 a disorderly market. If an increase in the rate



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decreases in other rates tends to limit the number
of approvals in the lending process. This also
tends to restrain interest in the rate until
it becomes clear that the higher rate would not
soon have to be restored.
The relative inflexibility in the RBI rate
has the disruptive effect of encouraging speculation
over changes in the rate. This does not operate
a disorderly market. It in fact increases in the rate



1 is expected private lenders tend to reduce their
2 volume of lending and if a decrease is expected
3 they tend to increase it.

4 4.75 There seems to be considerable reluctance on
5 the part of the borrowing public to accept readily,
6 increases in interest rates. This reluctance is
7 not peculiar to the NHA rate, although antipathy
8 towards its increases may be greater than that
9 towards others. The fact that there is opposition
10 to increases in interest rates is unfortunate.
11 Higher interest rates are a necessary concomitant
12 of monetary restraint. It is important to remember
13 that while increases in many other prices seem
14 irreversible, interest rates do fall. They are
15 not determined by collective bargaining.

17 4.76 Failure to raise the NHA rate when other
18 interest rates are rising as a result of monetary
19 restraint places an unfair share of the burden of
20 restraint upon the house building industry. The
21 provisions for setting the maximum rate merit
22 examination. The Act provides that whenever a
23 new rate is struck for insured loans it may not
24 exceed by more than 2.1/4% the prevailing rate
25 on 20-year Government of Canada bonds. This
26 formula was introduced in 1951. It was
27 associated with a change in general monetary
28 policy. Formerly monetary policy had been directed
29 towards supporting the prices of Federal Govern-
30 ment bonds. When the policy of supporting bond



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towards its increases may be greater than that
towards increases in interest rates is unfavourable.
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new rate is set at 6% and it may be
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ment bonds. When the policy of supporting bond

4.75

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1 prices was abandoned, the formula for changing
2 the NHA rate was introduced in keeping with the
3 new flexible monetary policy. Despite the
4 increasing use of monetary policy in recent years,
5 no change has been made in the formula apart from
6 minor adjustments which were necessary when
7 insured lending replaced joint lending in 1954.

8
9 4.77 The formula appears to be defective and
10 largely obsolete. It provides that the maximum
11 shall be set in relation to a 20-year Government
12 of Canada bond. It is difficult to see why this
13 connection should be made. If it implies that
14 Government of Canada bonds with maturities in
15 the vicinity of 20 years are a significant
16 alternative to investment in NHA loans, the
17 implication is wrong. The most important type
18 of approved lender is the life insurance companies.
19 From 1951 to 1957 inclusive, the life insurance
20 companies were net sellers of Government of
21 Canada bonds.

22 4.78 If the NHA rate must be set in relation to
23 Government of Canada bond yields, it seems
24 incorrect to set it in relation to 20-year bonds.
25 The NHA loan is not a single maturity investment.
26 It is a mixture of short, intermediate and long-
27 term maturities ranging from one month to 25
28 years. Twenty years is not the period to final
29 maturity, the average maturity of the monthly
30 instalments of principal is about 15 years, while



prices was abandoned, the formula for computing the NHA rate was introduced in keeping with the new flexible monetary policy. Despite the increasing use of monetary policy in recent years, no change has been made in the formula since 1954. However, the formula was revised in 1954.

4.77

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If the NHA rate were set in relation to Government of Canada bond yields, it seems reasonable to set it in relation to 20-year bonds. The NHA loan is not a single maturity investment. It is a mixture of short, intermediate and long term maturities ranging from one month to 20 years. Twenty years is not the period to which reference should be made in the formula.



1 the average effective maturity of NHA loans is
2 less than 15 years. Each maturity of the NHA
3 loan bears the same rate of interest but each
4 maturity of Government of Canada bonds does not.
5 Moreover, the yields on the various maturities of
6 Government of Canada bonds do not change uniformly.
7 The difference between a change in the margin of
8 the NHA rate over a comparable schedule of
9 Government of Canada bonds and a corresponding
10 change in the margin between the NHA rate and
11 the 20-year bond can be sizeable. It would be
12 more exact to think of premiums in the NHA rate
13 over a comparable schedule of Government of
14 Canada bonds.

15 4.79 However, if NHA lending is to be governed
16 by a maximum rate, it would be more realistic to
17 set it in relation to yields on important rather
18 than secondary investment alternatives. This
19 would mean setting it in relation to chartered
20 bank prime commercial loan rates and rates on
21 conventional mortgage loans.

22
23 4.80 Such an arrangement might be an improvement
24 over the present formula. But it would not
25 overcome one important cause of NHA rate
26 inflexibility. The Government would remain
27 responsible for increasing the rate. One way
28 to dispose of this problem is to eliminate the
29 maximum. The responsibility for increasing the
30 rate would fall upon each lender and the NHA rate



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1 would be free to respond to the changes in
2 interest rates in other parts of the capital
3 market.

4.81 As long as there is adequate competition
5 between lenders, borrowers would obtain loans at
6 a fair rate of interest. The rate of interest
7 would rise and fall, but as long as it was
8 determined under truly competitive conditions,
9 it would be difficult to argue that it was unfair.
10 Competitive price determination is a central
11 feature in the private enterprise system in which
12 we supposedly believe. Some would argue that the
13 NHA interest rate on insured loans should be less
14 than the free market rate, that the NHA rate
15 should in effect provide a subsidy. This
16 argument would carry more weight if low income
17 families were important NHA insured loan borrowers.
18 CMHC data shows that 93.9% of homeowner borrowers
19 in 1961 had incomes above \$4,000.00 a year. (1).

21 4.82 It would not be feasible to remove the
22 maximum rate of interest provision of the National
23 Housing Act without taking steps to ensure that
24 investors of all types had every opportunity of
25 investing in NHA loans. As in the past, NHBA
26 advocates that the NHA interest rate be freed to
27 find its own level in the same manner as convention-
28 al rates do, just as soon as the base of NHA
29 mortgage funds is broadened sufficiently, as we
30 -----

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NIA interest rate on insured loans should be less

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argument would carry more weight if low income

families were important NIA insured loan borrowers

Our data shows that 95% of borrower borrowers

in 1961 had incomes above \$4,000.00 a year. (1)

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maximum rate of interest provision of the National

Housing Act without taking steps to ensure that

investors of all types had every opportunity of

investing in NIA loans. In the past, NIA

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that the own level in the same manner as commercial

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mortgage funds is provided sufficient



1 have suggested. In the meantime the NHA interest
2 rate should be adjusted with sufficient frequency
3 and kept sufficiently high to encourage mortgage
4 lending at all times.

5 The Secondary Mortgage Market

6 4.83 One of the principal factors which limits
7 investment in NHA mortgages is their relative
8 lack of marketability. Until recently there had
9 never been a significant market for disposing of
10 insured mortgage loans. This meant that once the
11 approved lenders had built up portfolios which they
12 considered to be a prudent percentage of their
13 total investments, their continued rate of
14 mortgage lending was determined by their annual
15 growth of assets and the amount of principal
16 repayment on their outstanding mortgages.

17
18 4.84 The chartered banks for instance, at the end
19 of 1961 held \$958 million in NHA mortgages for
20 which there was not a ready market. The develop-
21 ment of a secondary market would free additional
22 funds for NHA lending and would reduce the present
23 dependence upon Government funds for new lending.

24 4.85 One other difficulty is that many potential
25 purchasers are unaware of the investment oppor-
26 tunities afforded by mortgages. There has not
27 been too much interest shown by non-institutional
28 investors such as pension funds, trusts and
29 estates, and others who are not familiar with
30



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1 mortgage insurance protection and consequently
2 do not realize that they can buy what amounts to a
3 mortgage bond, supported by a Government guarantee.
4 It generally is true that mortgages offer the
5 investor yields that are high in relation to the
6 firmness of security.

7
8 4.86. There has developed a need for a new type
9 of Corporation whose prime function would be to
10 own and trade in NHA mortgages and to issue in
11 its own name the usual corporate securities,
12 secured against insured mortgages. This would
13 make it easy for private and other investors to
14 invest indirectly in mortgages, without actually
15 acquiring the mortgage itself, which they are not
16 equipped to service.

17 4.87 Some new private corporations of this type
18 now exist and when their operations are further
19 developed, their securities should prove popular
20 and attractive to investors who would be unlikely
21 to make direct investments in NHA mortgages
22 themselves, due to their lack of mortgage
23 experience. They remove from the investor all
24 responsibility for and concern about the admin-
25 istration of the mortgages. Thus the creation of
26 new tradeable instruments permits a high degree of
27 liquidity not possessed, as we have stated, by
28 the direct mortgage investment itself.

29 4.88 It has been pointed out by some of those
30



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1 connected with the establishment of the new
2 secondary mortgage companies that there are
3 regulatory barriers preventing them from function-
4 ing as freely as they might wish to do. Specific
5 proposals have, we understand, been made to the
6 present Royal Commission for overcoming these
7 obstacles and we would suggest that due consid-
8 eration be given to investigating them and, if
9 necessary, recommending remedial action.

10 4.89 It has been pointed out by these companies
11 that there are certain inherent disadvantages to
12 NHA mortgages which do not make them as attractive
13 investments as they would at first appear to be
14 on the surface. For instance they point out that
15 the 100% insurance feature while good in theory
16 does not in fact work out in practice to be a
17 100% insurance. The lender invariably ends up with
18 something less than 100% of his investment in
19 cases where resort has to be made to the insurance
20 feature alone. There is also more administration
21 involved in making an NHA loan than a conventional
22 loan, the repayment privilege permitted under an
23 NHA mortgage is more liberal than normally exists
24 under a conventional mortgage. The mortgage has
25 to be serviced either by CMHC or an approved
26 lender at a cost which bears no relationship to
27 the outstanding principal and there is a certain
28 possibility of title unacceptability on the part
29 of CMHC. Partly, or possibly entirely because of
30

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possibility of title nonacceptability on the part
of GHEC. Partly or possibly entirely because of



1 these shortcomings, some approved lenders who
2 once did so, have ceased to make loans under the
3 National Housing Act.

4
5 4.90 NHBA had previously advocated to the
6 Government, the establishment of a secondary
7 mortgage market in Canada and therefore welcomed
8 the announcement made by the Minister of Public
9 Works in Ottawa on April 17th, 1961 that the
10 Government was undertaking through CMHC, the
11 immediate development of an active secondary
12 market in NHA insured mortgage loans. Since
13 that time several sales from the portfolio of
14 CMHC have taken place with considerable success.

15 4.91 Two out of three mortgages traded in the
16 secondary market in 1961, or \$170 million, (1),
17 were purchased by pension funds. This is a
18 source of mortgage money largely untapped up to
19 now. Pension fund assets at the end of 1960
20 amounted to \$3.6 billion or about one-half of
21 the \$7.2 billion savings accumulated in the
22 chartered banks and about 45% of the \$8.0
23 billion assets held by the life companies.
24 The absolute growth of pension fund assets
25 averaged nearly \$400 million over the period
26 1953-1960 - not much below that of life
27 insurance company assets, and has actually
28 exceeded the absolute growth of those bank assets
29 which derive from savings deposits. We say that
30 pension fund assets are largely untapped since



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Two out of three mortgages insured in the
secondary market in 1961, or \$140 million, 77%
were purchased by pension funds. This is a
source of mortgage money largely untapped up to
now. Pension fund assets at the end of 1960
amounted to \$1.5 billion or about one-half of
the \$3.2 billion savings accumulated in the
short-term funds and about 45% of the \$6.0
billion assets held by the life companies.
The absolute growth of pension fund assets
averaged nearly \$400 million over the 9 years
1953-1960 - not much below that of life
insurance company assets, and far below
exceeded the absolute growth of these pension assets
which derive from savings deposits. We say this
pension fund assets are heavily invested in



1 only 8% are presently invested in mortgages
2 compared to 42% for life companies.
3 (1) CMHC Annual Report - 1961, Page 10.

4 4.92 NHBA recommends that the secondary mortgage
5 market be given added emphasis and that the present
6 restrictions which have curtailed the activity in
7 this field be removed. A high degree of liquidity
8 in NHA mortgages would undoubtedly be a most
9 important factor in inducing lenders to increase
10 their participation in this form of investment
11 and in attracting new lenders.

12 Characteristics of NHA Borrowers & Houses

13 4.93 The average single family house financed
14 under NHA in 1961 had 1,154 sq. ft. of livable
15 floor area, was a three-bedroom bungalow and
16 cost \$14,474.00. The average house purchaser
17 paid \$2,475.00 as a down payment which was 21.7%
18 of his annual income, which averaged \$5,810.00.
19 The age of the average borrower was 34 years and
20 most of the families had one or two children.

21 4.94 Examination of Table 6 will show that incomes
22 of applicants under the National Housing Act are
23 largely grouped between those earning from
24 \$3,000.00 to \$8,000.00 a year. The percentage
25 able to qualify for an NHA house below the
26 \$3,000.00 figure is negligible.

only 6% are presently invested in mortgages

compared to 44% for life companies.
(1) CMC Annual Report - 1961, Page 10.

WFAA respondents list the following words as

related to their stock portfolio and their investment

regulations which have resulted in the activity in

this field be removed. A list of names of individuals

in WFAA mortgages would be to possibly be a most

important factor in financing funds to increase

their participation in this form of investment

and in obtaining new borrowers.

(Reproduction of WFAA Interview & Notes)

4.92 The average single family house financed

under WFAA in 1961 was 1,704 sq. ft. of livable

floor area, was a three bedroom house and

cost \$11,100. The average house purchased

paid \$3,400 as a down payment which was 31% of

of its annual income, which averaged \$8,810.00.

The age of the average borrower was 34 years and

most of the families had one or two children

4.93 Examination of 1961 is 1967 shows that in some

of applications under the National Housing Act are

largely grouped between these earnings in a

\$8,000.00 to \$8,000.00 a year. The percentage

able to qualify for an FHA loan below the

\$3,000.00 figure is negligible.



TABLE 6

INCOMES OF APPLICANTS UNDER THE
NATIONAL HOUSING ACT
1961 (1).

(percent)

| <u>Applicant's Income</u> | <u>Percent</u> |
|---------------------------|----------------|
| Under 2,000 | Less than 0.1% |
| 2,000-2,999 | 0.2 |
| 3,000-3,999 | 5.9 |
| 4,000-4,999 | 28.1 |
| 5,000-5,999 | 29.4 |
| 6,000-6,999 | 17.2 |
| 7,000-7,999 | 8.9 |
| 8,000-8,999 | 4.5 |
| 9,000-9,999 | 2.1 |
| 10,000 and over | 3.7 |
| TOTAL | 100.0 |

(1) CMHC "Canadian Housing Statistics - 1961"
Table 58.



SECTION 5

CONVENTIONAL MORTGAGE FINANCE

Legislative Limitations on Conventional Mortgages

5.1 For years the upper limit for conventional mortgages stood at 60% of the value of the property. About a year and a half ago, the Canadian and British Insurance Companies Act, The Loan Companies Act and the Trust Companies Act were all amended to increase the lending proportion to 66.2/3%. This was a compromise figure arrived at by trying to satisfy everyone. Some lending institutions thought it should have been higher. In England, insurance companies are permitted to invest in any situation which is deemed favourable in the judgment of the Board of Directors (1).

5.2 There is a wide range of risk involved in making mortgage loans. The physical condition of the property is but one of many determining factors. There are others, the personal record of the mortgagor, the term of the loan, the rate of interest, the saleability of the property in the event of foreclosure etc. All of these should form a basis for determining the amount of the loan - not merely the arbitrary limit of a percentage of the appraised value.

(1) Address of the President - The Dominion Mortgage and Investments Association - Annual Meeting 1961.

Conventional Mortgage Interest Rates and Terms

5.3 Conventional mortgage interest rates are free to respond to the availability of conventional mortgage funds. When there is a surplus of funds, the conventional lenders compete against each other for a place to locate their money. They reduce the interest rate as an incentive to the borrower. When conventional funds become scarce, the lenders are able to ask and get a higher rate of interest. This is the normal functioning of the supply and demand system by which our free enterprise economy works.

5.4 Conventional mortgage rates on housing have varied between $6\frac{3}{4}\%$ and 8% for several years and appear to be located at about 7% to $7\frac{1}{4}\%$ at the present time. This is about 1% to $\frac{3}{5}\%$ above the present NHA interest rate.

5.5 The term of conventional mortgages is usually shorter than the NHA term. Ten to 20 years is the usual range of most conventional residential mortgages. This means that although the amount of the mortgage in terms of the property value is not over $66\frac{2}{3}\%$, the short term makes the repayment per month relatively high in comparison with an NHA mortgage at a longer term.

Second Mortgages

5.6 Since purchasers often do not have $33\frac{1}{3}\%$ or more to put down on properties financed by conventional mortgages, they are forced to

Conventional mortgage interest rates and terms

are to respond to the availability of conventional mortgage funds. When there is a surplus of funds, the conventional lender competes against each other for a place to locate their money. They reduce the interest rate as an incentive to the borrower.

When conventional funds become scarce, the

lender is able to sell and get a higher rate of

interest. This is the normal functioning of the

supply and demand system by which our free

market operates.

Conventional mortgage rates on housing have

varied between 6.5% and 8% for several years

and appear to be located at about 7.5% to 7.75%

at the present time. This is about 1% to 2% above

the present FHA insured rate.

The term of a conventional mortgage is usually

shorter than the FHA term. Ten to 20 years is

the usual range of most conventional residential

mortgages. This means that although the amount

of the mortgage in terms of the property value

is not over 80%, the amort term makes the

property not worth relatively high in comparison

with an FHA mortgage on a longer term.

Conventional mortgage

Since lenders often do not have 20-25%

or more as the down on properties financed by

conventional mortgages, they are forced to



1 borrow part of the equity they must provide. The
2 borrower's only recourse frequently is the second
3 and, at times, third or fourth mortgage.

4
5 5.7 Interest rates on second mortgages are high
6 and terms of repayment are generally short,
7 resulting in high carrying charges. In addition,
8 there is frequently a substantial bonus to be paid
9 by the borrower, which still further increases the
10 actual rate of the loan.

11 5.8 With such supplementary mortgage payments
12 jeopardizing the ability of the borrower to keep
13 up his payments on the first mortgage, there is
14 more risk to the first mortgagee than if he had
15 provided all of the principal amount of the first
16 and supplementary mortgages together, in his first
17 mortgage at its more moderate terms.

18 5.9 NHBA would recommend that the statutory
19 limitations on the Life Insurance Companies, the
20 Loan Companies and the Trust Companies be eased
21 to permit them to use greater individual discretion
22 in making conventional mortgage loans. Should there
23 be reluctance to open the ceiling on conventional
24 loans, as in Great Britain, we would strongly
25 suggest raising the upper statutory limit on this
26 type of mortgage to at least 80% of the value of
27 the property.
28
29
30



SECTION 6

THE CHANGING PATTERN OF OUR HOUSING

The Increase in Multiple Family Units

6.1 Since the termination of the last war, there has been a steady change taking place in the form of housing being built in Canada. The single family house was once the predominant type. Back in 1948, for instance, 80% of the units were single family and only 11% were apartments. (1) However, by 1951, multiple family units had risen to 25.9% and the figure was higher in 1961 when it reached 34.2% - over 1/3 of all construction in the housing field.

6.3 In areas of 5,000 population and over, multiple family units made up 48% (including semi-detached) of the home building activity in 1961. (2) In Metropolitan Toronto, 76% of residential construction last year was of the multiple family type (3). As we progress as a nation and as more and more of us move into our cities, our housing requirements change. In the older Canada before the war more people lived in rural areas and in smaller communities. The cities into which they have migrated are becoming large and sprawling. Many people are finding single detached houses less

| | |
|---|-------|
| | Table |
| (1) CMHC "Canadian Housing Statistics - 1961" | 9 |
| (2) CMHC "Canadian Housing Statistics - 1961" | 8 |
| (3) CMHC "Canadian Housing Statistics - 1961" | 15 |



THE CANADIAN PATTERN OF HOUSING

The Importance of the Family Unit

Since the construction of the last war, there has been a steady change taking place in the form of housing being built in Canada. The single family house was once the predominant type. Back in 1946, for instance, 80% of the units were single family and only 12% were apartments. (1) However by 1957, multiple family units had risen to 25.7% and the figure was higher in 1961 when it reached 34.2% - over 1/3 of all construction in the housing

In view of the population and over multiple family units made up of (including semi-detached) of the new building activity in 1961. (2) In Metropolitan Toronto, 70% of residential construction last year was of the multiple family type (3). As we progress as a nation and as more and more of us move into our cities, our housing requirements change. In the United States before the war most people lived in rural areas and in smaller communities. The cities into which they have migrated are becoming large and sprawling. They people are living in single detached houses less

- Table
- (1) CMC Canadian Housing Statistics - 1961 9
 - (2) CMC Canadian Housing Statistics - 1961 6
 - (3) CMC Canadian Housing Statistics - 1961 15



1 suited to this urban life and hence duplexes, semi-
2 detached houses, town houses, apartments and other
3 forms of communal accommodation are gaining favour.
4 Builders have recognized this shift in the market
5 and have gradually changed their operations to the
6 multiple housing field.

7
8 6.3 Multiple housing may be rental accommodation
9 or it may be owned co-operatively. There is a
10 whole new field of opportunity opening up for home
11 ownership in multiple projects. Low wage earners
12 can hardly aspire to owning a single detached house
13 in many of our urban communities. Land costs are
14 too great and can best be overcome by increasing
15 the number of families which occupy an acre of
16 ground. Builders, designers and architects have
17 been working on this problem of increased density
18 and there are now numerous examples of excellent
19 solutions involving multiple housing units which
20 are attractive, economical and vastly better than
21 the living accommodation presently provided for
22 those in the very limited income groups.

23 6.4 The advent of the rental unit has produced
24 a new type of borrower, the rental entrepreneur
25 and the Limited Dividend Corporation. Some of these
26 are builders, others are investors who have decided
27 to become apartment owners. Table 7 shows that
28 entrepreneurs in 1961 acquired NHA mortgage loans
29 for 11,470 units. In addition, Limited Dividend
30 Corporations took out loans for 3,326 units.

shifted to this urban life and hence duplexes, semi-detached houses, town houses, apartments and other forms of communal accommodation are gaining favour. Builders have recognized this shift in the market and have gradually changed their operations to the

Multiple housing may be rental accommodation or it may be owned co-operatively. There is a whole new field of opportunity opening up for home ownership in multiple projects. Low wage earners can hardly aspire to owning a single detached house in many of our urban communities. Land costs are too great and can best be overcome by increasing the number of families which occupy an acre of ground. Builders, designers and architects have been working on this problem of increased density and there are now numerous examples of excellent multiple housing projects which are attractive, economical and vastly better than the living accommodation presently provided for these in the very limited income groups.

The advent of the rental unit has produced a new type of borrower, the rental entrepreneur and the limited dividend corporation. Some of these are builders, others are investors who have decided to become apartment owners. Table I shows that entrepreneurs in 1961 acquired 244 mortgage loans. Corporations took out loans for 2,346 units.



1 Their mortgages are bulk mortgages for a whole
2 building or complex of buildings, rather than
3 individual mortgages for each housing unit, as in
4 the case of detached single family houses. This
5 indicates a shift in the type of financing which
6 will be more prevalent as time goes on.

7
8 6.5

9 It is anticipated that the 20-29 year age
10 group which is to show such an increase in this
11 decade will be in the market for multiple family
12 and low-cost housing. They will not be earning
13 large salaries, will probably not have large, if
14 any, down payments to make on expensive houses,
15 but will require low cost housing. The multiple
16 unit, either owned or rented, is apparently the
17 best answer on the horizon today. It is the only
18 form of housing able to overcome the high cost of
19 serviced land. By use of increased density, that
20 is more persons per acre of land, the land cost per
21 unit of accommodation comes down. Serviced land
22 costs for single family houses meanwhile are
23 continuing upward at an astounding rate - a rate
24 which cannot be matched by improved building
25 techniques and reduced construction costs.
26
27
28
29
30



their mortgages are built mortgages for a whole building or complex of buildings, rather than individual mortgages for each housing unit, as in the case of detached single family houses. This indicates a shift in the type of financing which will be more prevalent as time goes on.

It is anticipated that the 20-25 year age group which is to show even an increase in this decade will be in the market for multiple family and lowest housing. They will not be earning large salaries, will probably not have large, if any, down payments to make on expensive houses, but will require low cost housing. The multiple unit, either owned or rented, is apparently the best answer on the horizon today. It is the only form of housing able to overcome the high cost of serviced land. By use of increased density, that is more persons per acre of land, the land cost per unit of accommodation comes down. Serviced land costs for single family houses meanwhile are continuing upward at an astounding rate - a rate which cannot be matched by improved building techniques and reduced construction costs.



TABLE 7

NHA MORTGAGE LOANS APPROVED
1961 - (1)
(Dwelling Units)

| <u>BORROWER</u> | <u>No. OF UNITS</u> |
|--------------------------------|---------------------|
| <u>Approved Lenders' Loans</u> | |
| Owner Applicants | 3,658 |
| Builders | 23,515 |
| Rental Entrepreneurs | 11,470 |
| Sub-total | <u>38,643</u> |
| <u>Direct CMHC Loans</u> | |
| Owner Applicants | 14,027 |
| Builders | 7,044 |
| Limited Dividend Corporations | <u>3,326</u> |
| | 24,401 (2) |
| TOTAL NHA LOANS | 63,044 (2) |

6.6 The other group, the 70 years plus group, which is also to increase in the 1960's is another for which multiple family housing is very appealing. Older persons find the responsibilities of single detached houses with their extensive home care less and less attractive. They are demonstrating this by their acceptance of the special forms of housing which have been constructed with their particular needs in mind. We have only scratched the surface of housing for the elderly.

(1) CMHC "Canadian Housing Statistics - 1961"
Table 27

(2) Includes four rental units financed by direct CMHC Loans which are not shown elsewhere in the table.



TOTAL

NEW HOUSING LOANS APPROVED

1961 - 1962

NO OF UNITS

LOANORS

Approved Housing Loans

23,500
11,170
38,670

Buildings
General Improvements
Sub-total

Interest Only Loans

14,027
7,044
3,826

Owner Applicants
Buildings
Limited Dividend Corporations

63,044 (2)

TOTAL NEW LOANS

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Older persons find the responsibilities of single
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(1) "Canadian Housing Statistics - 1961"
Table 27

(2) Includes four rental units financed by direct
GNR loans which are not shown elsewhere in
the table.



1 Urban Renewal and Redevelopment

2 6.7

3 Our thoughts for development of our cities
4 have at last turned inwards after looking to the
5 suburbs almost exclusively for the past number of
6 years. We now recognize the need to renew and
7 rebuild the centres of our cities. We have
8 allowed these central areas to deteriorate to an
9 alarming degree. In many cases the only remedy
10 is to demolish whole sections and build anew.
11 In others, where the decay is less advanced, we
12 realize that we must undertake extensive re-
13 habilitation and conservation of what is left. The
14 field of urban renewal is just now opening up as
15 a market for the housing industry. As more and
16 more emphasis is placed upon renewal, by our
17 municipalities, by our provinces and by the Federal
18 Government, builders will be induced to enter this
19 tremendous field of rebuilding and redevelopment.
20 Undoubtedly new forms of financing will have to
21 be created to meet the needs of urban renewal.

22 Home Improvement Program

23 6.8

24 On a smaller scale, new emphasis is being
25 placed on another much needed program, that of
26 home improvements. Many homeowners will be
27 convinced of the desirability of improving their
28 present dwellings and bringing them up to modern
29 standards. As we become better off financially,
30 we look around for places to spend our money.
Home improvement is one market competing for our

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field of urban renewal is thus now opening up as
a market for the housing industry. As more and
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home improvements. Many homeowners will be
convinced of the desirability of improving their
present dwellings and bringing them up to modern
standards. As we become better off financially,
we look around for places to spend our money.
Home improvement is one market competing for our



1 dollars. A great desire for better living is being
2 created in our public by the shelter magazines, by
3 the advertisers and by the home improvement financing
4 programs of the lumber dealers, the banks, as well
5 as through the National Housing Act. In this latter
6 connection, it is unfortunate that the maximum amount
7 of an NHA home improvement loan is so small that it
8 is inadequate to do many of the improvements needed
9 and that the term of repayment is so short, with
10 resultant high monthly charges. NHBA would
11 recommend that the present limit on NHA Home
12 Improvement Loans be increased from \$4,000.00 to
13 \$8,000.00, that the repayment term be extended to
14 20 years, and the banks be permitted to charge the
15 prevailing NHA interest rate.

16 6.9 As in the case of NHA 100% insured mortgage
17 loans, the 100% insured home improvement loans
18 offer the lender something less than full insurance
19 coverage. By virtue of this fact, the banks are
20 unwilling to rely entirely on the NHA insurance
21 feature and are asking borrowers to supplement
22 this Government "collateral" with collateral of
23 their own. There are instances of borrowers having
24 difficulty even getting loans of the permitted
25 \$4,000.00 from approved lenders under the Act,
26 despite the insurance protection. An increase in
27 the interest rate might have the effect of making
28 these loans more sought after by the banks. The
29 unfavourable features at present attached to NHA
30 home improvement loans nullifies their usefulness



dollars. A great desire for better living is being created in our public by the shelter magazines, by the advertisements and by the home improvement financing programs of the lender dealers, the banks, as well as through the National Housing Act. In this latter connection, it is unfortunate that the maximum amount of an FHA home improvement loan is so small that it is inadequate to do many of the improvements needed and that the term of repayment is so short, with resultant high monthly charges. FHA would recommend that the present limit on FHA home improvement loans be increased from \$4,000.00 to \$8,000.00, that the repayment term be extended to 20 years, and the banks be permitted to charge the

As in the case of FHA 100% insured mortgage loans, the 100% insured home improvement loans offer the lender something less than full insurance coverage. By virtue of this fact, the banks are unwilling to rely entirely on the FHA insurance feature and are asking borrowers to supplement this Government "collateral" with collateral of their own. There are instances of borrowers having difficulty even getting loans of the permitted \$4,000.00 from approved lenders under the Act. Despite the insurance protection. An increase in the interest rate might have the effect of making these loans more sought after by the banks. The unfavorable feature of present FHA home improvement loans nullified their usefulness



1 to some considerable degree.

2
3 6.10 The banks made home improvement loans
4 aggregating \$42.6 million in 1961 as compared to
5 \$30.1 million in 1960 (1). At the end of 1961
6 they had outstanding loans of \$65.9 million (1).
7 They are almost the only lenders under this Section
8 24 of the National Housing Act. The Home Improvement
9 Loan Insurance Fund, comprised of fees received
10 from borrowers, amounted to \$2.2 million at the
11 end of 1961 (1).
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22 (1) CMHC Annual Report - 1961, Page 23.
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29
30



to some considerable degree.

6.10

The banks made home improvement loans aggregating \$42.6 million in 1961 as compared to \$32.1 million in 1960 (1). At the end of 1961 they had outstanding loans of \$55.9 million (1). They are almost the only lenders under this Section 24 of the National Housing Act. The Home Improvement Loan Insurance Fund, comprised of fees received from borrowers, amounted to \$2.2 million at the end of 1961 (1).



APPENDIX "A"

BUILDERS' ASSOCIATIONS AFFILIATED WITH
THE NATIONAL HOUSE BUILDERS ASSOCIATION

1. Barrie Builders' Association
2. Brandon House Builders Association
3. Brant County Builders' Association
4. Brockville Branch, NHBA.
5. Calgary Housebuilders Association
6. Cornwall Branch, NHBA
7. Edmonton House Builders' Association
8. Elgin & St. Thomas Branch, NHBA
9. Fredericton Branch, NHBA
10. Frontenac Home Builders Association
11. Grey & Bruce Branch, NHBA
12. Galt-Preston-Hespeler Home Builders Association
13. Guelph Home Builders Association
14. Halifax Metropolitan Home Builders Association
15. Metropolitan Hamilton House Builders Association
16. Kitchener-Waterloo House Builders Association
17. Lakehead Housebuilders Association
18. Lethbridge House Builders Association
19. London Home Builders Association
20. Medicine Hat House Builders Association
21. Moncton Branch, NHBA
22. Montreal District House Builders Association
23. Niagara Peninsula Home Builders Association
24. Norfolk County House Builders Association
25. North Halton Builders Association
26. Oakville Builders' Association
27. Oshawa Builders' Association
28. Home Builders Association of Greater Ottawa
29. Pembroke Builders Association
30. Peterborough Home Builders Association
31. Societe des Constructeurs d'Habitations du District
de Quebec Inc.
32. Quinte Home Builders Association
33. Red. Deer & District Housebuilders Association
34. Regina House Builders' Association
35. Sarnia Branch, NHBA
36. Saskatoon Home Builders Association
37. Sault Ste. Marie Home Builders Association
38. Southern New Brunswick Home Builders Association
39. St. John's Home Builders Association
40. Societe des Constructeurs d'Habitations du Saguenay-
Lac St-Jean
41. Societe des Constructeurs d'Habitations de Sherbrooke
et District
42. Stettler House Builders Association
43. Sudbury Home Builders Association
44. Toronto Metropolitan Home Builders' Association
45. Vancouver Metropolitan House Builders' Association
46. Great Windsor Home Builders Association
47. Winnipeg House Builders Association
48. Woodstock Home Builders Association



APPENDIX "B"

THE NATIONAL HOUSEBUILDERS ASSOCIATION

CODE OF ETHICS

The active members of this Association shall be limited to those persons and firms who shall subscribe to the following:

(A) Members of the National House Builders Association believe and affirm that:

(1) Home ownership by Canadian families should be encouraged.

(2) Canadian Houses should be well-designed, well-constructed and well-located in attractive communities, with educational, recreational, religious and shopping facilities accessible to all.

(3) Canadian Houses should be built under the free enterprise system.

(B) To achieve these goals, we pledge allegiance to the following principles and practices:

(1) Our paramount responsibility is to our customers, our community and country.

(2) Honesty is our guiding business policy.

(3) High Standards of health, safety and sanitation shall be built into every house.

(4) The right to a fair return for goods and services shall be upheld and protected in our relations with labour and all other segments of the industry.

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(2) Canadian Houses should be well-designed,

well-constructed and well-located in

attractive communities with educational,

recreational, religious and shopping

facilities accessible to all.

(3) Canadian Houses should be built under

one time enterprise system.

(E) To believe these goals, we pledge allegiance

to the following principles and practices:

(1) Our paramount responsibility is to our

members, our community and country.

(2) Honesty is our guiding business policy.

(3) High standards of health, safety and

sanitation shall be built into every

(4) The right to a fair return for goods and

services shall be upheld and protected

in our relations with labour and all

other segments of the industry.



(5) As members of a progressive industry, we encourage research to develop new materials, new building techniques, new building equipment and improved methods of home financing, to the end that every home purchaser may get the greatest value possible for every dollar.

(6) All sound legislative proposals affecting our industry and the people we serve shall have our informed and vigorous support.

(C) We assume these responsibilities freely and solemnly, mindful that they are part of our obligation as members of the National House Builders Association.

OBJECTIVES

The objectives of this Association shall be:

- (A) To associate the house builders of Canada for purposes of mutual advantage and co-operation.
- (B) To develop and maintain within the house building industry, a high appreciation of the objectives and responsibilities of house builders in fully serving the public.
- (C) To advocate and encourage the constant improvement of house building techniques and practices.
- (D) To promote and protect house ownership among all the people.



(2) As members of a progressive industry, we

encourage research to develop new materials

new building techniques, new building

equipment and improved methods of home

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homeowner may get the greatest value possible

for every dollar.

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our industry and the people we serve shall

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Builders Association.

ARTICLE IV

The objectives of this Association shall be:

(A) To associate the house builders of Canada

for purposes of mutual advantage and co-operation

(B) To develop and maintain within the house

building industry, a high reputation of the

objectives and responsibilities of house

builders in fully serving the public.

(c) To advocate and encourage the constant

improvement of house building techniques and

practices.

To promote and protect house ownership among

all the people.



- 1 (E) To co-operate with other trade associations
2 in all matters related to advancing the house
3 building industry.
- 4 (F) To advocate the standardization of building
5 codes throughout Canada.
- 6 (G) To work in liaison with the Federal, Provincial
7 and local authorities in matters concerning
8 policy, stabilization and development of the
9 house building industry.
- 10 (H) To promulgate and enforce a Code of Ethics
11 for members of this Association.
- 12 (I) To collaborate with distributors and
13 manufacturers of building materials and
14 equipment to the end that maximum quality
15 at minimum cost to the consumer be achieved.
- 16 (J) To issue such publications as may be necessary
17 to disseminate information of value to its
18 members, the public and the Government.
- 19 (K) To serve, advance and protect the welfare
20 of the house building industry, in such
21 manner that adequate housing will be made
22 available by private enterprise to all
23 Canadians.
- 24 (L) To form, at the direction of the Executive,
25 a separate corporation to devote itself to
26 research to the benefit of the builders
27 and the people of Canada.
- 28 (M) To operate without profit and no part of the
29 income of this Association shall enure to the
30 benefit of any individual member.



- (F) To co-operate with other trade associations in all matters related to advancing the house building industry.
- (H) To advocate the standardization of building codes throughout Canada.
- (G) To work in liaison with the Federal, Provincial and local authorities in matters concerning policy, establishment and development of the house building industry.
- (I) To promulgate and enforce a Code of Ethics for members of this Association.
- (J) To collaborate with distributors and manufacturers of building materials and equipment to the end that maximum quality at minimum cost to the consumer be achieved.
- (K) To issue such publications as may be necessary to disseminate information of value to its members, the public and the Government.
- (L) To serve, advance and protect the welfare of the house building industry, in such manner that adequate housing will be made available by private enterprise to all Canadians.
- (M) To form, at the direction of the Executive, a separate corporation to devote itself to research to the benefit of the builders and the people of Canada.
- (N) To operate without profit and no part of the income of this Association shall inure to the benefit of any individual member.



APPENDIX "C"

LOG OF SIGNIFICANT DEVELOPMENTS
UNDER THE NATIONAL HOUSING ACT, 1954

March 1954 - Revised Act effective.

February 1955 - Maximum interest rate reduced from 5.1/2% to 5.1/4%. (In May banks voluntarily reduced their rate to 5%).

March 1956 - Ceiling rate from 5.1/4% to 5.1/2%

January 1957 - Ceiling rate raised from 5.1/2% to 6%

March 1957 - Banks undertook to lend \$150 million on NHA mortgages in 1957.

September 1957 - CMHC announced \$150 million immediately available through approved lenders for low-cost homes.

December 1957 - Following changes made in NHA regulations:

(1) 90% on first \$12,000 instead of first \$8,000.

70% on remainder unchanged.

Maximum loan unchanged at \$12,800.

(2) As a rule of thumb, maximum permitted percentage of mortgage payments plus taxes to income raised from 23% to 27%.

(3) Additional \$150 million fund made available.

(4) Loans to be made direct to builders, maximum 25 per builder.

May 1958 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from \$400 million to \$750 million. New



ATTACHMENT "C"

FOR OR STIMULANT DEVELOPMENT
UNDER THE NATIONAL HOUSING ACT, 1934

Section 1 - General

February 1955 - Maximum interest rate reduced from 5.1% to 5.1%. (In May banks voluntarily reduced their rate to 5%)

March 1956 - Ceiling rate from 5.1% to 5.1%

January 1957 - Ceiling rate raised from 5.1% to 5.1%

March 1957 - Banks undertook to lend \$150 million on

NHA mortgages in 1957.

September 1957 - CMHC announced \$150 million immediate

available through approved lenders for low-cost homes.

December 1957 - Following changes made in NHA

Section 2 -

(1) 90% on first \$12,000 instead of

first \$8,000.

70% on remainder unchanged.

Maximum loan increased at \$12,000.

(2) As a rule of thumb, maximum permitted

percentage of mortgage payments plus

taxes to income raised from 25% to

27%.

(3) Additional \$150 million fund made

Section 3 -

(4) Loans to be made direct to builders.

Maximum 25 per builder.

May 1958 - Housing Act amended to increase amount

available from Consolidated Revenue Fund for NHA

mortgages from \$400 million to \$450 million. New



1 quota of 25 loans per builder per community established.

2 March 1959 - Housing Act amended to increase amount
3 available from Consolidated Revenue Fund for NHA
4 mortgages from \$750 million to \$1 billion.

5 July 1959 - Announcement that as of September 1, 1959
6 an additional \$250 million would be available for
7 mortgage lending by CMHC at 6%, with a quota of 15
8 loans per builder.

9 December 1959 - Ceiling rate increased from 6% to
10 6.3/4%. Also announced only \$160 million would be
11 available for direct loans in 1960.

12 March 1960 - Housing Act amended to increase amount
13 available from Consolidated Revenue Fund for NHA
14 mortgages from \$1 billion to \$1.5 billion. Announced
15 that \$175 million would be available for direct loans
16 but to home owners only in under \$5,000 income bracket.

17 July 1960 - Direct loans to builders permitted
18 providing house already sold. Income bracket raised
19 to \$7,000.

20 October 1960 - All income ceilings withdrawn.

21 Repayment period for direct loans 30 years. Builders
22 permitted to apply for two display homes.

23 November 1960 - Housing Act amendments introduced
24 as follows:

- 25 1. Maximum loan raised from \$12,800 to
26 \$14,200 (\$14,900 if more than three
27 bedrooms.)
- 28 2. Maximum term extended to 35 years.
- 29 3. Amount of loan on first \$12,000 raised
30 from 90% to 95%.



quota of 25 loans per bidder per community established

March 1959 - Housing Act amended to increase amount

available from Consolidated Revenue Fund for NHA

mortgages from \$750 million to \$1 billion.

July 1959 - Announcement that as of September 1, 1959

an additional \$250 million would be available for

mortgage lending by CMHC at 6%, with a quota of 15

loans per bidder

December 1959 - Ceiling rate increased from 6% to

6.375%. Also announced only \$150 million would be

available for direct loans in 1960.

March 1960 - Housing Act amended to increase amount

available from Consolidated Revenue Fund for NHA

mortgages from \$1 billion to \$1.5 billion. Announced

that \$175 million would be available for direct loans

but to home owners only in under \$8,000 income bracket

July 1960 - Direct loans to biddees permitted

providing house already sold. Income bracket raised

to \$7,000.

October 1960 - All income ceilings withdrawn.

Repayment period for direct loans 30 years. Biddees

permitted to apply for two display homes.

November 1960 - Housing Act amendments introduced

as follows:

1. Maximum loan raised from \$12,800 to

\$14,300 (\$14,900 if more than three

bedrooms.)

2. Maximum term extended to 35 years.

3. Amount of loan on first \$12,000 raised

from 6% to 5%.



4. No mention made of amount available
for direct loans.

September 1961 - Authorized amount of Government money
for direct lending increased from \$1.5 billion to
\$2.0 billion.

October 1961 - Ceiling rate reduced from 6.3/4% to
6.1/2%



U.S. DEPARTMENT OF THE INTERIOR

For direct loans.

September 1931 - Authorized amount of Government money

for direct lending increased from \$1.5 billion to

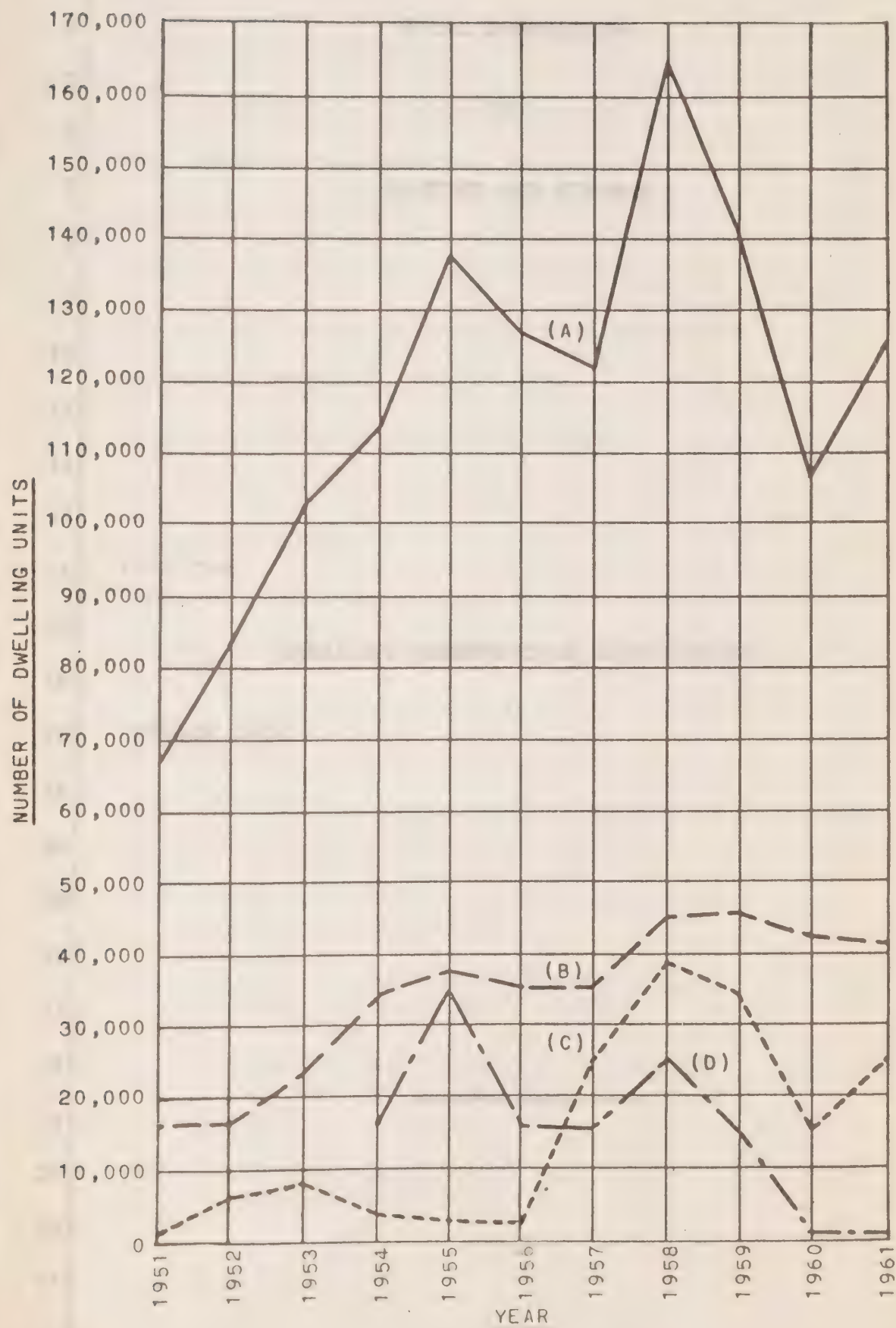
\$2.0 billion.

October 1931 - Selling rate reduced from 0.844 to

0.840

DWELLING STARTS IN CANADA1951 - 1961

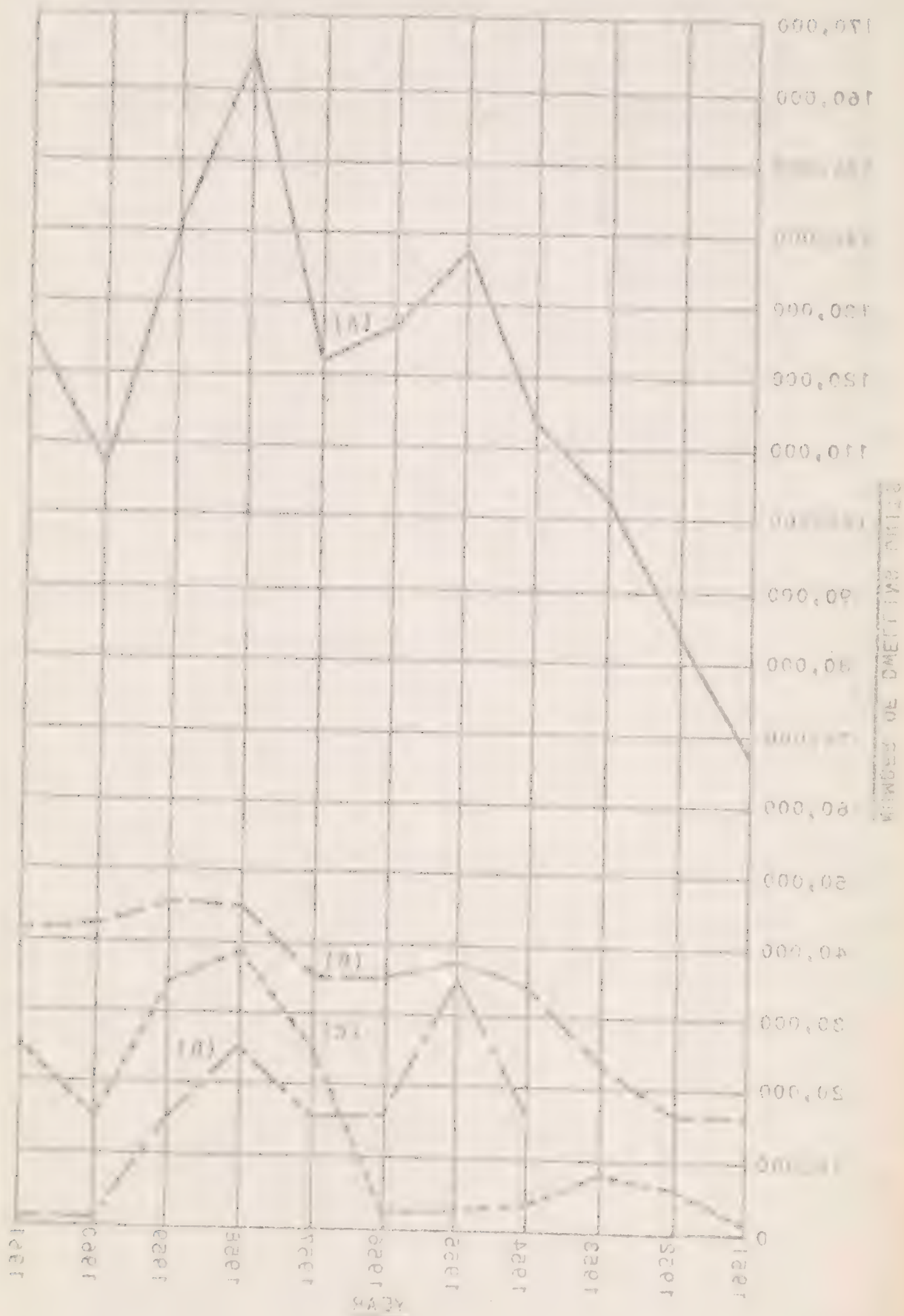
SOURCE: CMHC "CANADIAN HOUSING STATISTICS"

LEGEND:

- (A) ——— TOTAL DWELLING STARTS IN CANADA.
 (B) ——— CONVENTIONAL MORTGAGE LOANS - NEW CONSTRUCTION.
 (C) - - - - DIRECT CMHC MORTGAGE LOANS.
 (D) — · — · — NHA MORTGAGE LOANS BY CHARTERED BANKS.

1961 - 1962

Source: CMHC "CANADIAN HOUSING STATISTICS"





Nethercut & Young

Toronto, Ontario

S U B M I S S I O N

TO THE

ROYAL COMMISSION

ON

BANKING AND FINANCE

from the

CANADIAN CONSTRUCTION ASSOCIATION

October 1962



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Nethercut & Young

Toronto, Ontario

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1 CANADIAN CONSTRUCTION ASSOCIATION

2 Construction House, 151 O'Connor Street

3 Ottawa 4, Canada

4 The Honourable Dana H. Porter, LL.D.

5 Chairman

6 and Commissioners

7 The Royal Commission on Banking and Finance

8 Ottawa, Ontario

9
10 Gentlemen:

11 1. The Canadian Construction Association was
12 pleased to be invited to make a submission to the
13 Royal Commission on Banking and Finance. Members of the
14 construction industry are vitally affected by the
15 subjects under review since the volume of their busi-
16 ness is dependent upon the availability of funds and
17 investment incentives to those wishing to make capital
18 outlays. Similarly, contractors themselves are parti-
19 cularly dependent upon the chartered banks for their
20 working capital requirements.

21 2. The Association also appreciated receiving
22 a detailed outline of topics on which the Royal
23 Commission especially wished to have recommendations
24 or information. (It is hoped that future Royal
25 Commissions will also follow this helpful course of
26 action). Some of these assigned topics, however, have
27 been left largely to those groups that have a more
28 specialized interest in and knowledge of them.

29 3. The construction industry is Canada's
30



1 largest Its volume reflects the degree of economic
2 expansion under way. The influence of government out-
3 lays and policies on the size of the industry's
4 operations is of paramount importance. Over 38 percent
5 of the \$7 billion construction programme in 1961 was
6 estimated to represent direct expenditures by the Federal,
7 Provincial and Municipal Governments. Their policies
8 frequently are also the determining factor in the
9 initiation of other projects. For example, a sub-
10 stantial portion of new private house construction has
11 been financed under the terms of Federal housing
12 legislation and at no net cost to the public. Central
13 Mortgage & Housing Corporation has insured housing
14 mortgages whose total value amounted to \$500 million
15 in one year. It is estimated that roughly 25 percent
16 of the construction programme (\$1 3/4 billion) has
17 been carried out annually in recent times under the
18 provisions of Federal legislation. Of this amount,
19 less than half is represented by actual outlays by
20 Federal departments, agencies and enterprises; the
21 balance consists of loans, subsidies, grants and
22 guarantees.

23 4. Then again, Government policies concerning
24 tax rates, capital cost and investment allowances,
25 credit, interest rates, trade and tariffs, immigration,
26 resources development, urban renewal etc., greatly
27 influence investment decisions by private owners.
28 Inasmuch as the "private works programme" is roughly
29 twice as large as the public works programme, it is
30 obvious that government policy should be directed at



1 stimulating capital investment (two-thirds of which is
2 construction) in order that the means for economic ex-
3 pansion and increased employment be provided on a
4 continuing basis.

5 5. The Canadian Construction Association has
6 accordingly long advocated that effective incentives
7 be introduced in our tax system as a method of stimu-
8 lating capital investment. The reduction in the
9 volume of construction outlays by Canadian manufacturers
10 and the recently announced Federal public works cut-
11 backs serve to provide additional supporting arguments
12 to the Association's policy.

13 6. The incentives introduced in recent Federal
14 Budgets have been steps in the right direction but are
15 insufficient to make a contribution in keeping with the
16 need as expressed in terms of providing jobs for our
17 rapidly expanding labour force and in meeting compe-
18 tition at home and abroad. During the past four years
19 the Canadian Construction Association has urged the
20 Federal Government and, where applicable, the Pro-
21 vincial Governments, to introduce taxation incentive
22 policies along the following lines:

23 (a) Increased capital cost allowance and/or
24 investment allowances -- e.g., complete
25 write-offs for industrial plants within
26 any five of their first eight years;

27 (b) Corporation income tax rate cuts and/or
28 rebates on increased capital investment,
29 production, etc.;

30 (c) Reclassification of certain "capital"



- 1 costs such as architects' and consulting
2 engineers' fees for design and super-
3 vision work as operating expenses;
4 (d) Reduction in construction costs by ex-
5 emption of all construction materials and
6 equipment from sales tax and faster write-
7 offs for construction equipment;
8 (e) Extension of Federal winter works payroll
9 incentives to similar privately-financed
10 construction projects, and faster write-
11 offs for wintertime projects.

12 In addition, the Association has long established
13 policies advocating joint action on public works pro-
14 jects in cases where more than one government is in-
15 volved and the retention of our national housing legis-
16 lation on a basis that will adequately serve the es-
17 sential housing market.

18 7. Inasmuch as monetary and fiscal policies have
19 an extremely close bearing on the size and nature of
20 both the publicly- and privately-financed sections of
21 the construction programme, abrupt changes in these
22 policies can have a very direct and sometimes un-
23 settling effect on the industry. Similarly, the supply
24 of investment funds that is necessary to maintain the
25 large volume of construction takes on correspondingly
26 large proportions. The construction industry is mainly
27 a service industry and consequently the problems of
28 financing the capital outlays have been (or should be)
29 settled by the purchaser of these construction services
30 before the contractor comes into the picture. (An



1 important exception exists, of course, in the case of
2 projects initiated by the builder).

3 8. In so far as public works are concerned, the
4 Association has withheld from advising governments and
5 other public bodies on how they can increase their vari-
6 ous levies and thereby obtain more funds to finance
7 their capital investments, but it has made comprehensive
8 recommendations on how they can obtain better value for
9 their construction dollar. It has also been pointed
10 out that tax relief may well encourage business ex-
11 pansion and an ensuing increase in the tax base, there-
12 by bringing to the government in question increased
13 revenues while at the same time reducing the incidence
14 of taxation on the individual taxpayer.

15 9. With regard to privately-financed construction,
16 it is believed that alternative sources of funds are
17 desirable. Once again, this may relate to government
18 policies such as tax rate cuts and increased capital
19 cost allowances which enable businesses to accumulate
20 more investment capital. It could also relate to a
21 relaxation of the present regulations restricting the
22 lending or investment activities of the chartered
23 banks, trust and insurance companies and other financial
24 institutions. The extension of the National Housing
25 Act to include mortgages on existing houses would be
26 welcome. The financing facilities for the export of
27 goods and services have expanded in recent times but
28 need to be brought into line with those that are avail-
29 able in other countries. (To date, Export Credits
30 Insurance Corporation has yet to insure or finance a



1 Canadian contractor on a foreign project). Similarly,
2 it is noted that institutions that are major sources of
3 investment funds elsewhere in the world such as build-
4 ing loan societies and private banks and a secondary
5 mortgage market are still minor features in the
6 Canadian financial scene.

7 10. Turning to matters with which this Association
8 is more directly familiar, contractors are particularly
9 dependent upon the chartered banks for credit. Loans
10 to contractors as at September 30, 1961, totalled
11 \$345.8 million. Finance companies have become a sig-
12 nificant factor of late in the financing of construction
13 equipment. (Approximate total for 1961, \$220 million.)
14 The Industrial Development Bank's loans to contractors
15 totalled less than \$13 million, 1956-1961. Working
16 capital requirements to carry out construction projects
17 are frequently heavy. For example, the investment in
18 construction equipment necessary for engineering
19 projects is such that the value of the plant may exceed
20 the amount of the contract. Investment costs or carry-
21 ing charges on construction equipment that is either
22 bought or leased are accordingly high. Contractors
23 have a good deal of money tied up in holdbacks, security
24 deposits and receivables. Few construction firms
25 raise capital through the sale of bonds or stocks.
26 Exceedingly keen competition, high income tax rates and
27 inadequate capital cost allowances for construction
28 equipment make difficult the accumulation of surplus
29 funds. (Department of National Revenue taxation
30 statistics show that on average from 25 percent to 30



1 percent of Canadian construction companies experience
2 a loss on their year's operations).

3 11. The financing costs experienced by Canadian
4 contractors are heavier than those by U.S. contractors.
5 For example, the latter are able to borrow money at
6 lower rates of interest, purchase their equipment more
7 cheaply, use it as collateral for loans and write it
8 off faster under the terms of U.S. tax regulations.
9 The advantages are quite apparent when Canadian and
10 U.S. contractors bid on the same project.

11 12. An "undesirable" source of credit in the
12 construction industry exists in the form of prolonged
13 terms of payment for many contractors to suppliers of
14 materials and equipment. Similarly, sub-contractors
15 who are slow in being paid by general and trade con-
16 tractors in effect provide the latter with working
17 capital if the work has been paid for by the owner.
18 Indeed, some owners or lenders will reduce their own
19 financing expenses by delaying the approval of progress
20 estimates, mortgage advances and final payments.
21 Measures designed to deter fraudulent or premeditated
22 bankruptcies would be helpful in reducing abnormal
23 credit risks.

24 13. The Association would like to stress that
25 since contractors and supply firms are largely
26 dependent upon the banks for credit, measures that are
27 introduced to reduce the volume of commercial loans
28 have much more impact on the construction industry
29 than on others which may have major alternative
30 sources of funds. Some local bank managers have



percent of Canadian companies operating
in loss on their operations.
The financing costs exceed those of Canadian
companies and heavier than those by U.S. companies.
For example, the latter are able to borrow money at
lower rates of interest, purchase their equipment more
cheaply, use it as collateral for loans and receive it
off faster when the terms of U.S. tax incentives
are favorable and quite different from Canadian and
U.S. companies bid on the same project.
The "unbearable" source of credit in the
competition industry exists in the form of prolonged
terms of payment on many contracts to the detriment of
Canadian and equipment (Canadian) and account factors
who are then in being paid by delayed and since long
Canadian in effect provide the latter with working
capital in the form of cash paid for by the owner.
Indeed, some owners or lenders will reduce their own
financing expenses by delaying the approval of projects
estimated, mortgage advances and loan payments.
Resources directed to other financial or commercial
activities would be helpful in reducing the amount
credit taken.
The same situation would likely be in other cases
of the construction and supply of the latter.
Dependent upon the banks for credit, measures should
be introduced to reduce the volume of commercial loans
to be made, more so on the construction and industry
than on others which may have a higher rate of return.
Some local bank managers have



1 interpreted credit curb policies to mean that credit
2 extended to construction firms should be restricted to
3 a percentage of the amount made available in the previous
4 year. The Association contends strongly that contractors
5 should not be subjected to arbitrary decisions of this
6 nature but that the amount of a loan should be based
7 on the merits of the individual applications. Efforts
8 to curb outlays for construction purposes should be made
9 only in the direction of owners.

10 14. The Association advocates the retention or
11 establishment of "trust provisions" in mechanics' lien
12 legislation whereby the banks obtain equal status with
13 other creditors in the event that a construction
14 company fails. It agrees, however, that there should
15 be a reasonable time limit to the life of the trust
16 provision.

17 15. A growing practice has been noted in the
18 case of large-scale commercial construction projects
19 whereby the sponsoring financial institution requires
20 that lien rights be waived as a condition of receiving
21 the construction contract. It is felt that contractors
22 and suppliers have their full share of business risks
23 without being asked to surrender the protection
24 afforded by lien laws.

25 16. The above points are dealt with more fully
26 in the following pages. Additional matters are also
27 mentioned and a summary of recommendations and an ap-
28 pendix conclude the brief.

29 17. All of which is respectfully submitted.
30



1. The proposed credit cut-off policies to mean that credit
 2. extended to construction firms should be restricted to
 3. a percentage of the amount made available in the credit
 4. should not be subjected to arbitrary decisions as to the
 5. nature but that the amount of a loan should be based
 6. on the merits of the individual applicant. It is
 7. to curb outlays for construction purposes which are
 8. only in the direction of owners.

9. The Association advocates the retention of
 10. establishment of "trust provisions" in contracts, that
 11. legislation whereby the banks could agree to limit
 12. other creditors in the event that a construction
 13. company fails. It agrees, however, that there should
 14. be a reasonable time limit to the life of the trust

15. A growing practice has been noted in the
 16. case of large-scale commercial construction projects
 17. that have been waived as a condition or necessity
 18. the construction contract. It is felt that contractors
 19. and suppliers have their full share of business risks
 20. without being asked to surrender the protection

21. provided by their laws.
 22. The above points are dealt with more fully
 23. in the following pages. Additional matters are also
 24. mentioned and a summary of economic conditions and an

25. All of which is respectfully submitted.



1 S.D.C. Chutter, General Manager.

2 H.R. Montgomery, President

3 THE CANADIAN CONSTRUCTION ASSOCIATION

4 18. Organized in 1918, the Canadian Construction
5 Association is an industry-wide and nation-wide as-
6 sociation with upwards of 1,200 member firms and 68
7 regional and local affiliated construction associations
8 which in turn have a combined membership of over 8,000
9 firms. The membership consists of leading firms of
10 all sizes including general and trade contractors in
11 both building and engineering construction; manu-
12 facturers and suppliers of construction materials and
13 equipment; and those providing services to construction
14 firms (insurance, surety bonds, testing, etc.). Most
15 of the construction requiring the services of architects
16 or consulting engineers which is put in place in Canada
17 in any one year is carried out by members of this
18 Association or its Affiliates.

19 THE CANADIAN CONSTRUCTION PROGRAMME

20 19. The construction industry is Canada's largest.
21 The annual value of the construction programme has
22 averaged \$7 billion since 1957 and has accounted for
23 nearly one-fifth of Canada's gross national product.
24 The annual equivalent of 570,000 full-time jobs and
25 \$2½ billion in purchasing power in construction pay-
26 rolls are provided by this programme. An even greater
27 number of Canadians are employed off-site in manufactur-
28 ing, transporting and merchandising the \$3 3/4 billions
29 of construction materials and equipment required each
30 year.



1 20. Moreover, the construction industry provides
2 the physical means for Canada's economic growth.
3 Completed construction projects generate employment in
4 that they provide the facilities necessary for employ-
5 ment in other segments of the economy, plus the em-
6 ployment connected with their maintenance and servicing.
7 Construction activities take place in all parts of the
8 country and constitute the main industry in most
9 regions. So much of the Canadian economy now relies on
10 the construction programme that any sizeable reduction
11 in construction volume would have widespread adverse
12 effects. Conversely, and more significantly, it is of
13 particular importance that the volume of both privately-
14 and publicly-financed construction be maintained and
15 expanded. In the long run, both of these sectors re-
16 quire a favourable business climate if funds are to be
17 invested in sufficient volume.

18 21. The main features of the Canadian construction
19 programme are shown in the following tables:
20
21
22
23
24
25
26
27
28
29
30

PRIVATE AND PUBLIC CONSTRUCTION INVESTMENT - CANADA

(Millions of Dollars)

| | <u>Private</u> | <u>Public</u> | <u>Total</u> |
|-------------|----------------|---------------|--------------|
| 1957 | 4,448.1 | 2,572.9 | 7,021.0 |
| 1960 | 4,227.7 | 2,656.3 | 6,884.0 |
| 1961 | 4,340.3 | 2,699.7 | 7,040.0 |
| 1962 (est.) | 4,367.7 | 3,013.3 | 7,381.0 |

Source: Private and Public Investment in Canada
Department of Trade and Commerce

VALUE OF CONSTRUCTION WORK PERFORMED BY TYPE OF STRUCTURE

(Thousands of Dollars)

| | <u>1957</u> | <u>1960</u> | <u>1961</u> Prelim. | <u>1962</u> Est. |
|-----------------------|------------------|------------------|------------------------|---------------------|
| FIXED CONSTRUCTION | | | | |
| Residential | 1,813,000 | 1,913,000 | 1,951,000 | 2,046,000 |
| Industrial | 610,670 | 451,568 | 402,505 | 461,352 |
| Commercial | 656,196 | 738,127 | 756,896 | 758,582 |
| Institutional | 519,191 | 615,188 | 654,847 | 809,265 |
| | <u>287,468</u> | <u>333,121</u> | <u>320,023</u> | <u>336,344</u> |
| | 3,886,525 | 4,051,104 | 4,085,271 | 4,411,534 |
| MINING CONSTRUCTION | | | | |
| Highway & Street | 708,780 | 830,359 | 829,997 | 867,875 |
| Oil | 740,481 | 454,372 | 565,893 | 428,413 |
| Electric Power | 507,554 | 348,877 | 408,122 | 422,342 |
| | <u>1,179,718</u> | <u>1,201,543</u> | <u>1,150,011</u> | <u>1,252,449</u> |
| | 3,136,533 | 2,835,151 | 2,954,023 | 2,971,079 |
| VALUE OF CONSTRUCTION | 7,023,058 | 6,886,255 | 7,039,294 | 7,382,613 |

Source: Construction in Canada, D.B.S.



1 22. The annual physical volume of construction
2 has more than doubled during the post-war period and
3 registered an annual increase until 1958. Not only
4 has the size and complexity of individual projects
5 grown but the programme has also become increasingly
6 important in relation to the gross national product.
7 In 1946 it was 13 percent; in 1957 it was 22 percent.
8 Since then the ratio eased somewhat as the value of
9 the construction programme levelled out but the average
10 for the past decade has been 20 percent. Thus, roughly
11 one out of every five dollars spent in end goods and
12 services has been a construction dollar.

13 23. The increase in the value of the construction
14 programme, however, has not been steady. In 1956, for
15 instance, there was a rise of 21.6 percent, whereas
16 the increase in 1954 was fractional. Moreover, within
17 the construction programme there have been appreciable
18 fluctuations in the totals for the various main cate-
19 gories and regions. Changes in housing policy,
20 completion of major projects of an engineering con-
21 struction nature and credit curbs are sample factors
22 in this regard.

23 24. As has been pointed out in some detail in
24 paragraphs three and four, government outlays and
25 policies at all levels have a very great influence
26 over the size and nature of the construction programme.
27 It is most desirable that monetary and fiscal policies
28 be directed at achieving as steady a rate of economic
29 growth as possible. Fluctuations in the rate of con-
30 struction do not make for efficiency. It should also



1 be remembered by those that are responsible for
2 formulating these policies that most construction
3 projects require a good deal of advance planning. As
4 has been said many times, "construction cannot be
5 turned on and off like a tap".

6 25. It should be noted that contractors have an
7 additional reason for disliking sudden increases in
8 demand that lead to inflationary trends -- the vast
9 majority of construction contracts are on a firm price
10 basis. Under the industry's current surplus capacity
11 conditions, however, a very substantial increase in
12 the volume of work could be undertaken without any
13 particular strain.

14 INVESTMENT INCENTIVES

15 26. The fact that the annual rate of business
16 investment for construction and machinery in Canada
17 has fallen by one billion dollars since 1957 points
18 up the urgent need for stimulating this sector of our
19 national development. Furthermore, it is this sector
20 that will be looked to primarily to provide employment
21 opportunities for Canada's rapidly expanding labour
22 force. The overall volume of construction has been
23 retained largely by increases in the public works
24 programme. The latter is now being subjected to cut-
25 backs. Taxation incentives that encourage private
26 spending have the further advantage of reducing the
27 demand for public spending to maintain employment
28 levels.

29 27. Expenditures for construction by manufacturers
30



1 reflect, in the main, new or expanded production
2 facilities. The annual outlay has dropped by over \$200
3 million below the \$650 million total recorded in 1957.
4 The Federal Government's Mid-Year Survey of investment
5 intentions for this year contained a figure of \$439
6 million for construction investment by manufacturers.
7 It must be remembered that the total was compiled
8 before the announcement of the emergency measures
9 programme in late June. The cut-backs in the public
10 works programme make it all the more desirable for
11 business capital investment to be encouraged to ex-
12 pand and, indeed, to carry out even the programme that
13 they planned to execute as of last spring.

14 28. The Association has recommended to the Federal
15 Government that the most effective incentive to busi-
16 nessmen to increase their capital investment would be
17 tax cuts through lower rates and/or rebates based on
18 investment, increased production, etc. Increased
19 capital cost allowances on structures and machinery
20 have also found continuing favour on the part of our
21 members on the basis of the successes experienced both
22 in Canada and in other nations in encouraging the
23 development of new industries and the erection of modern,
24 competitive facilities by means of faster investment
25 write-offs. In addition, such arrangements are
26 flexible and do not adversely affect government re-
27 venues in the long run. Indeed, it has been contended
28 that they will increase the Government's tax revenues
29 inasmuch as new tax-paying business facilities will
30 not be established unless some special incentives are



1 provided to investors. Faster write-offs are also
2 necessary to cover inflated replacement costs.

3 29. The Association has commended the Federal
4 Government for its recognition of the desirability of
5 investment incentives in Canada's taxation policy and
6 for its introduction of several measures in this field
7 in recent Federal Budgets. The incentives provided to
8 date are steps in the right direction but from the
9 point of view of general economic expansion, the CCA
10 recommends consideration of increased capital cost
11 allowances in the business investment sector covering
12 all new fixed assets generally and that capital outlays
13 for industrial plants specifically may be written off
14 entirely in any five of the initial eight-year period.

15 30. The Association has also pointed out that
16 not only do other leading nations provide business with
17 more generous capital cost allowances than is the case
18 in Canada, but several of them also offer investment
19 allowances. Inasmuch as retained earnings are usually
20 the largest single source of funds for the expansion
21 of production facilities, it is vital that Canadian
22 industrialists be afforded opportunities through tax
23 rates and capital cost and investment allowances as
24 least as favourable as those available in comparable
25 countries. Whereas some industries today are experiencing
26 surplus capacity conditions, there are others that
27 have scope for expansion. Also, the provision of more
28 modern facilities may well make companies more
29 competitive.

30 31. Capital investment would be further



1 encouraged if certain cost factors now capitalized were
2 classified as operating expenses and therefore subject
3 to the equivalent of a 100 percent capital cost al-
4 lowance. One example in this regard is the profession-
5 al fees related to the design and supervision work
6 involved in construction projects when the services of
7 outside consultants are used. Such a provision would
8 have the further advantage of encouraging owners to
9 have their design work prepared in advance.

10 32. It is also pointed out that the application
11 of sales tax to construction items constitutes a tax
12 on capital and therefore is a "dis-incentive" to
13 investment. The combined effect in cases where the
14 Federal and a Provincial sales tax applies ranges from
15 11 percent to 17 percent of purchase price to the
16 contractor. This, plus related overhead expenses,
17 becomes a capital cost.

18 33. The Federal Government has exempted the
19 majority of construction items from its sales tax but
20 there are many conspicuous exceptions. For instance,
21 whereas most industries benefit from a standard ex-
22 emption for their production equipment, the con-
23 struction industry does not in the case of either the
24 federal or the provincial sales taxes. (Ironically,
25 exemptions are provided to governments, thereby tend-
26 ing to encourage public bodies to buy construction
27 equipment to carry out their own construction work.
28 If contractors engaged on public projects were afforded
29 the same exemptions, the governments would not lose
30 revenue and private contractors would have a more



1 equitable opportunity of carrying out their normal
2 construction functions and, incidentally, of increasing
3 their base for income tax.)

4 34. For many years the Association has made repre-
5 sentations advocating the complete exemption of con-
6 struction items from the Federal sales tax. Specific
7 recommendations have been made concerning such items
8 as electrical materials, nails, air conditioning equip-
9 ment, safety helmets and tools which still remain
10 subject to the 11 percent tax. Provincial Governments
11 and, in Quebec, Municipal Governments have been even
12 far less inclined to exempt construction items from
13 their sales taxes. Indeed, the impact of the latter
14 on construction costs which have to be borne by the
15 purchaser of construction services is usually greater
16 than that of the federal sales tax. (Only Alberta and
17 Manitoba do not have sales taxes.) It has been noted
18 that several of the Commonwealth Nations in the West
19 Indies offer sales tax exemptions for materials and
20 equipment imported to build business facilities.
21 Widespread recognition of this principle in Canada is
22 strongly recommended. The exemption of construction
23 items from sales tax would likely means an average
24 investment saving of at least three percent.

25 35. Within the construction industry itself,
26 the present capital cost allowances for construction
27 equipment are less generous than are available to
28 contractors in leading countries in the Western World.
29 This gap was recently widened further by the intro-
30 duction of a new system in the USA whereby contractors



1 may obtain even faster write-offs of their equipment.
2 Prior to 1949 such factors as multiple-shift operations
3 were taken into consideration in Canada in setting the
4 depreciation rate for taxation purposes but no similar
5 adjustment is now permitted. It is most desirable that
6 contractors be encouraged to invest in new equipment,
7 the main medium through which improved efficiency can
8 be achieved. Accordingly it is recommended that con-
9 tractors be permitted to have a capital cost allowance
10 rate of a 50 percent on the diminishing balance basis
11 for normal operations. Small items with a life ex-
12 pectancy of one year or less should be given a 100 per-
13 cent rate and complete write-offs allowed on abandoned
14 equipment in isolated areas.

15 36. A further hardship currently being ex-
16 perienceed by contractors in investing in new equipment
17 is that even that which by tariff definition is of a
18 class or kind not made in Canada is subject to a
19 tariff surcharge. Imported repair parts in the same
20 category also bear the impost although those for
21 automobiles are exempted.

22 37. The Federal Government and, to varying extents,
23 the Provincial Governments have offered special in-
24 centives to Municipal Governments designed to en-
25 courage them to carry out more of their construction
26 projects in the winter months. These incentives have
27 been increasingly effective. The Canadian Construction
28 Association and the other national organizations
29 represented on the National Joint Committee on Winter-
30 time Construction have urged that the principle of



1 incentives be extended to privately-financed projects
2 as part of the campaign designed to increase the volume
3 of wintertime construction and employment on the grounds
4 that the offering of similar incentives in the "private
5 works" programme could be relied upon to bring even
6 greater results. Examples include the extension of
7 the same incentive to builders as is now available to
8 municipalities with reference to the wintertime instal-
9 lation of services that later become part of the
10 municipal system; the availability of accelerated capital
11 cost allowances based on wintertime payrolls on con-
12 struction projects wholly or substantially built during
13 the winter months or on the first year's operations
14 of long-term projects started in the fall or winter;
15 the exemption of items used to facilitate wintertime
16 construction from the Federal Sales Tax (see above)
17 and classifying them as operating rather than capital
18 expenses; and special incentives related to the mort-
19 gage provisions of winter-built housing units.

20 38. Outlays for worthwhile, well-planned public
21 works projects are very definitely in the "investment"
22 category and can earn rich dividends. Many public
23 projects are financed by two or three levels of govern-
24 ments. The availability of construction and planning
25 grants, low interest loans, etc., by a senior govern-
26 ment frequently supplies the incentive to another
27 government to proceed with a project. The Association
28 has accordingly urged joint action and advance consul-
29 tation in the planning, financing and construction of
30 such projects in order that they will not be delayed



1 or made unduly costly because of lack of co-ordination.

2 39. Incentives play a most important role in the
3 execution of many types of public works projects. Schools,
4 roads, anti-pollution controls, winter works, hospitals
5 and urban redevelopment projects are examples. The
6 points that the Association wishes to stress in this
7 regard are the need for agreement between the various
8 levels of government in so far as many public projects
9 are concerned and the need for the widespread extension
10 of the investment incentive principle to privately-
11 financed projects in order to encourage their
12 initiation.

13 SOURCES OF FUNDS FOR CONSTRUCTION PROJECTS

14 40. As was pointed out in paragraph three, a high
15 percentage of the Canadian construction programme is
16 financed with public funds. The Federal Government
17 alone has over twenty departments and agencies which
18 administer construction contracts. Provincial, county
19 and municipal governments, commissions, boards and
20 public enterprises are also major buyers of con-
21 struction services. Even foreign governments have
22 appreciable construction outlays in Canada -- notably
23 in defence projects and to a minor extent through the
24 construction of embassies, etc. Projects in border
25 zones such as the St. Lawrence Seaway and Power
26 Project and international bridges and tunnels have been
27 carried out on a joint basis.

28 41. The sources of funds for these public ex-
29 penditures for construction services are normally tax
30



1 revenues of various kinds and the proceeds of bond
2 issues and other securities. Grants from a senior
3 government or charitable institution may also be an im-
4 portant factor. Then again, projects may be financed
5 with loans from a senior government which is in a
6 position to borrow money at a lower rate of interest
7 or other more attractive terms.

8 42. Some public projects are being financed on
9 a leaseback basis and others -- especially bridges,
10 tunnels and arterial highways -- many have a toll
11 levied on those using them. Public parking lots or
12 garages similarly charge only those who are using their
13 facilities. Members of the construction industry help
14 to provide temporary financing to public bodies in
15 those cases where there are lengthy delays in the pro-
16 cessing of payments and the release of holdbacks and
17 where security deposits are required in the form of
18 certified cheques.

19 43. The Association will not attempt to comment
20 on the adequacy or otherwise of the taxing and borrow-
21 ing powers of our governments at different levels to
22 finance their various construction projects other than
23 to state that many have been forced to scale down their
24 capital investment programmes from time to time and
25 that a more widespread availability of low interest
26 loans to municipalities to finance municipal services
27 is especially desirable.

28 44. Our industry has a twofold interest to public
29 projects:

30 (a) Governments constitute the industry's



1 largest customer;

2 (b) Firms engaged in construction operations
3 are also taxpayers and they wish to see
4 that the greatest possible value is ob-
5 tained for the public works dollar.

6 Much of the Association's brief to the Royal Commission
7 on Government Organization was accordingly devoted to
8 recommendations designed to bring about greater econo-
9 mies and efficiency through standardization and simpli-
10 fication of procedures, adherence to approved tendering
11 and contract administration practices, consolidation
12 of federal construction operations and comprehensive
13 advance planning.

14 45. The Federal Government sets, in general, a
15 very high standard in the administration of construction
16 contracts but the size of its construction programme
17 is such that further improvements could lead to con-
18 siderable savings. The same is true on the provincial
19 and local government levels where there is a greater
20 tendency to follow the outdated and uneconomical
21 practice of using day labour rather than benefitting
22 from the intense competition in the industry. Govern-
23 ment Departments at all levels with the largest
24 volumes of work follow the contract method for the
25 simple and significant reason that they cannot afford
26 to do so.

27 46. Privately-financed projects have a variety
28 of sources of funds -- loans, retained earnings, the
29 sale of stocks and bonds, mortgages, foreign invest-
30 ments, etc. Short-term financing may also be needed



1 to meet progress payments during construction. A
2 growing number of enterprises have found that there
3 are tax advantages for them in leaseback arrangements,
4 perhaps with an option to buy at a later date. Resi-
5 dential construction is a special case in that the
6 source of funds of a good many mortgages is the
7 Federal Government.

8 47. Once again, the Association will leave to
9 those directly affected to comment on the adequacy or
10 otherwise of these sources of funds and of the services
11 of the financial institutions, and of the impact of
12 monetary and fiscal policies on their investment
13 activities. It is believed that those wishing to make
14 a capital investment should be provided with suf-
15 ficient taxation incentives to make it worthwhile and,
16 if external financing is necessary, the security
17 markets and lending institutions should provide at
18 least comparable facilities to those that are avail-
19 able in other countries.

20 48. Mention should also be made of some examples
21 in which the traditional source of funds has changed
22 from public to private and vice versa. A growing
23 number of municipalities have transferred their
24 responsibility of providing municipal assessments to
25 the developer of a new area as a condition of being
26 permitted to proceed. In the case of housing, the
27 transfer means that if the homeowner has a mortgage
28 its amount and that of the down payment and interest
29 charges increase accordingly (the individual cannot
30 ordinarily loan at the same rate as a municipality).



to meet progress payments during construction. A
growth number of enterprises have found that
the tax advantages for them in construction are
perhaps with an eye to pay as a kind of
actual construction is a steady state in the
course of funds of a good many more, as the

17. Once again, the association will have to
these things which to control on the one hand
operation of these sources of funds and of the
of the financial institution and of the impact of
money and fiscal policy on the economy
activities. It is believed that these things to make
a capital investment should be provided with the

It is not clear if necessary, the results
have to be taking into account should provide an
least considerable facilities to those who are
also in other countries.

18. Mention should also be made of some examples
in which the results, some of them are
been made to make a growing
number of enterprises have transferred their
responsibility of providing multiple assistance to
the development of a new area as a condition of being
included in process. In the case of industrial
development, for the government has a policy
the success and rate of the development and the
to be made a condition of being included in process.



1 On the other hand, Nova Scotia Industrial Estates Ltd.,
2 a provincial Crown Corporation, has assumed the
3 responsibility of building commercial and industrial
4 buildings and then leasing them to private firms.

5 SOURCES OF FUNDS FOR CONSTRUCTION COMPANIES

6 49. Incorporated construction companies are
7 mainly private, closely-held firms. Many of the
8 smaller concerns operate as partnerships or sole
9 proprietorships. Relatively little use is made of the
10 security markets as a means of raising funds. Many
11 firms start business with a bank loan backed by a
12 personal guarantee. Very few contracting firms have
13 their stock listed. Bonds have been marketed but such
14 instances are rare. Factors cited in this regard are
15 the viewpoint of investors that construction is a
16 risky type of venture and profits are often re-invested
17 in the company because of equipment and working
18 capital requirements related to business expansion;
19 that the "value" of a construction company is fre-
20 quently directly associated with the identity of a few
21 key personnel; and that contractors prefer to retain
22 control of their operations.

23 50. Construction companies engaged in contract
24 construction require short-term funds for the payment
25 of material supplies, payrolls and other operating
26 expenses; and longer term funds for capital outlays
27 not financed from earnings or current funds. The amount
28 and cost of equipment used by certain types of contractor
29 is considerable. Investment in buildings for the
30



1 operation of contracting businesses is relatively light.
2 Road builders and other heavy construction firms and
3 structural steel and, to a lesser extent, pre-stressed
4 concrete and laminated timber contractors are among
5 those with the heaviest investments in equipment and
6 buildings.

7 51. Builders who erect structures for sale, rent
8 or their own ownership are in need of more long-term
9 funds for their "finished goods inventory" and may
10 also require extra short-term funds to cover "work in
11 progress". They may also have a sizeable investment
12 in land. Some firms engage in both contract construct-
13 ion and speculative work. Then again, firms providing
14 "package plans" may be working on a contract basis but
15 also supply the land and/or financing and accordingly
16 require additional funds.

17 52. In so far as the financial institutions are
18 concerned, construction firms rely almost exclusively
19 on the chartered banks for their short-term financing.
20 The volume of bank loans in this regard has risen over
21 the years roughly in accordance with the increase in
22 the physical volume of construction.

23

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TABLE III

CHARTERED BANK LOANS TO CONSTRUCTION CONTRACTORS
IN CANADA 1934-61

(Millions of dollars)

| <u>As at October 31</u> | <u>As at September 30</u> |
|-------------------------|---------------------------|
| 1934 - 21.8 | 1947 - 93.9 |
| 1935 - 24.1 | 1948 - 103.6 |
| 1936 - 23.7 | 1949 - 113.3 |
| 1937 - 32.1 | 1950 - 122.7 |
| 1938 - 36.0 | 1951 - 151.8 |
| 1939 - 40.6 | 1952 - 158.7 |
| 1940 - 45.3 | 1953 - 175.0 |
| 1941 - 43.7 | 1954 - 200.8 |
| 1942 - 45.5 | 1955 - 273.2 |
| 1943 - 44.0 | 1956 - 343.2 |
| 1944 - 38.5 | 1957 - 299.7 |
| 1945 - 47.4 | 1958 - 275.1 |
| 1946 - 71.7 | 1959 - 357.6 |
| | 1960 - 339.5 |
| | 1961 - 345.8 |

Source: Bank of Canada

It will be noted that the above figures do not reflect the total amount of bank credit extended during the year and that those for the years 1934-46 are for a time of the year when the volume of construction was tapering off.

53. Canadian chartered banks are not permitted to accept chattel mortgages on construction equipment.



(The opposite is true in the USA and several other western countries). Finance companies which specialize in the financing of industrial equipment have fulfilled this function in recent years to an ever increasing extent.

TABLE IVCOMMERCIAL AND INDUSTRIAL FINANCING BY
SALES FINANCE COMPANIES END OF 1953, 1957, 1961

(Thousands of dollars)

| Source | Total | 1953 |
|---------|---------|--------------------------------------|
| | | *Construction (Est. 55% of total) |
| # FCSFC | 178,642 | 98,254 |
| DBS | 184,000 | 101,200 |

| Source | Total | 1957 |
|---------|---------|--------------------------------------|
| | | *Construction (Est. 55% of total) |
| # FCSFC | 273,577 | 150,467 |
| DBS | 288,000 | 158,400 |

| Source | Total | 1961 |
|---------|---------|--------------------------------------|
| | | *Construction (Est. 55% of total) |
| # FCSFC | 407,901 | 224,345 |
| DBS | 401,000 | 220,550 |

* There are no figures available for construction industry as such. However, it is felt that 55%-60% of total is a safe estimate.

Federated Council of Sales Finance Companies.

54. The Industrial Development Bank has increased its lending operations to construction companies in recent years, mainly with regard to equipment purchases.



(The opposite is true in the USA and several other western countries). Finance companies which specialize in the financing of industrial equipment have fulfilled this function in recent years to an ever increasing extent.

TABLE IV

COMMERCIAL AND INDUSTRIAL FINANCING BY
SALES FINANCE COMPANIES END OF 1963, 1961, 1960
(Thousands of dollars)

| Source | Total | 1963 | |
|--------|---------|-------------------|---------------|
| | | Year 50% of total | *Construction |
| 1963 | 184,000 | 178,645 | 98,254 |
| 1961 | 238,000 | 213,577 | 150,487 |
| 1960 | 401,000 | 407,901 | 294,845 |

* There are no figures available for construction industry as such. However, it is felt that 50-60% of total is a safe estimate.
* Federated Council of Sales Finance Companies.

The Industrial Development Bank has increased its lending operations to construction companies in many ways with regard to equipment financing.



To date, however, the volume of loans has been relatively small compared to those of banks and finance companies.

TABLE V

INDUSTRIAL DEVELOPMENT BANK LOANS
TO CONSTRUCTION INDUSTRY

| <u>Year</u> | <u>No.</u> | <u>Amount</u> <u>(Thousands</u> <u>of dollars)</u> | <u>Total Expenditure</u> <u>for Construction</u> <u>Equipment</u> |
|-------------|------------|--|---|
| 1956 | 4 | 285 | 170,000 |
| 1957 | 12 | 1,002 | 151,000 |
| 1958 | 33 | 1,072 | 109,000 |
| 1959 | 35 | 2,135 | 129,000 |
| 1960 | 60 | 2,454 | 116,000 |
| 1961 | 143 | 5,957 | 118,000 |
| TOTAL | | 12,905 | 793,000 |

Source: I.D.B.

Source: Investment
Outlook Private &
Public

"RoyNat Ltd." is a new, similar
source of funds.

Department of Trade
and Commerce

55. Contractors ordinarily can obtain the necessary financing on overseas projects where payment to the contractor is guaranteed (e.g. Colombo Plan and World Bank-financed projects.) Export Credits Insurance coverage would also normally make contractors eligible for bank financing services. To date, however, such policies have not been issued and long-term loans have not been extended on construction



1 projects being executed by Canadian contractors in
2 other countries.

3 56. The construction companies engaged in carry-
4 ing out their own developments rely heavily on mort-
5 gages held by insurance companies, trust companies,
6 etc., for their additional financing requirements.

7 Residential mortgages were also invested in by the
8 chartered banks during a recent period when they were
9 permitted to do so following an amendment to the Bank
10 Act and when the NHA lending rate did not exceed the
11 bank rate. An appreciable number of large scale resi-
12 dential, industrial and commercial construction de-
13 velopments have been financed by foreign investors.

14 57. Other sources of funds to construction
15 companies which augment their own resources include
16 government loans or subsidies (e.g. limited dividend
17 housing loans, storage facilities subsidies, etc.);
18 owners' financing for cost plus fee contracts in cases
19 where their operations are such that they can borrow
20 money or purchase equipment and materials more cheaply
21 than contractors; and outside firms, either Canadian
22 or foreign, who "buy into" construction companies.

23 58. Internal sources of funds for construction
24 companies include earnings, capital cost allowances,
25 trade credit and, in some instances, holdbacks. Trade
26 credit tends to become particularly extensive if bank
27 credit is "tight" and if the industry is working well
28 below its capacity with the result that there is ex-
29 tremely intense competition and payments tend to be
30 slow.



1 59. The subject of "credit policies" was judged
2 to be of such widespread concern in the industry that
3 it was selected above all others for a Forum Discussion
4 at the Association's annual meeting last February. The
5 viewpoints of general and trade contractors, material
6 suppliers, equipment dealers, chartered banks, finance
7 companies and surety firms were expressly sought in this
8 regard.

9 60. Their statements were mainly based on current
10 conditions in which the construction industry is work-
11 ing well below its capacity and all of the suppliers of
12 credit (the banks included) are popularly blamed for
13 being indiscriminate in the extension of credit. It is
14 contended that this in turn enables more firms to
15 establish or expand, increases the competition for the
16 available work by inexperienced firms and thereby contri-
17 butes to the industry's ills. A different complaint
18 is expressed in times when the industry experiences
19 shortages and monetary restrictions are imposed to off-
20 set inflationary tendencies.

21 61. The Association would like to stress that
22 since contractors and supply firms are largely depend-
23 ent upon the banks for credit, measures that are intro-
24 duced to reduce the volume of commercial loans have
25 much more impact on the construction industry than on
26 others which may have major alternative sources of funds.
27 Some local bank managers have interpreted credit curb
28 policies to mean that credit extended to construction
29 firms should be restricted to a percentage of the amount
30 made available in the previous year. The Association



1 contends strongly that contractors should not be sub-
2 jected to arbitrary decisions of this nature but that
3 the amount of a loan should be based on the merits of
4 the individual applications. Efforts to curb outlays
5 for construction purposes should be made only in the
6 direction of owners. Once a construction project has
7 been financed, the contractor should be granted the
8 amount of credit required for the job consistent with
9 his credit rating; otherwise the cost of the work may
10 well be increased unnecessarily. In summary, it is
11 believed that the chartered banks should carefully
12 screen contractors before extending credit and treat
13 them on an individual basis in times of credit shortage
14 rather than apply uniform cut-backs.

15 CHARTERED BANKS' LENDING POWERS

16 62. The Association was specifically asked to
17 comment on "the arguments for and against broadening
18 the banks' lending powers." The latter presumably
19 contemplates the making of loans based on the security
20 of mortgages on equipment, buildings and other fixed
21 assets and an increase in the bank rate to permit in-
22 vestment in residential mortgages.

23 63. As has been mentioned, banks engage in such
24 activities in the USA and it would seem that the
25 chartered banks in Canada have all attained a size
26 and maturity that would enable them to make decisions
27 as to the merits of such loans without undue risks to
28 their depositors.

29 64. From the construction industry's standpoint,
30



conclude strongly that contractors should not be subjected to arbitrary decisions of this nature but that the amount of a loan should be based on the merits of the individual applications. However, so much emphasis for construction purposes should be made only in the direction of others. Once a construction project has been financed, the contractor should be allowed the amount of credit required for the job consistent with his credit rating; otherwise the cost of the loan will be increased unnecessarily. It is necessary to be satisfied that the contractor should be able to obtain credit on the basis of credit rating and that the contractor should be able to obtain credit on the basis of credit rating.

62. The Association was specifically asked to comment on "the arguments for and against increasing the bank's lending power." The latter responded accordingly that the making of loans based on the security of mortgages on equipment, buildings and other fixed assets and an increase in the bank rate to permit the

63. As has been mentioned, banks agree to such facilities in the USA and it would seem that the chartered banks in Canada have not obtained a similar right. They would advise them to have facilities as to the making of loans without regard to their deposit



1 it would be beneficial in that it is presumed that such
2 loans would be made at a lower interest rate than is now
3 available from other financial institutions, even if
4 some increase in the present bank rate were permitted.
5 In practice the banks might be more selective in the
6 financing of, for example, construction equipment and
7 this in turn would tend to give those firms with good
8 prospects something of a competitive edge in their
9 financing costs. This in turn might well have a
10 stabilizing effect in the industry. (IDB loans in this
11 category, for example, are carefully screened and
12 enjoy an attractive interest rate.) Moreover, the entry
13 of the banks into these fields would also seem to bene-
14 fit the buyers of construction by providing them with
15 an alternative source of funds.

16 65. On the other hand, the views have been ex-
17 pressed that entry of the banks into these new lending
18 activities might require them to curtail their role
19 as lenders in other fields or to encourage them to do
20 so because of the higher interest rate than may be
21 available. Inasmuch as the construction industry
22 relies so heavily on the banks, the disadvantages might
23 well out-weigh the advantages. Even if this situation
24 did not materialize, the proposed change would tend to
25 make construction companies even more dependent upon
26 the banks and therefore even more vulnerable to their
27 policies or decisions. There is a prevalent opinion
28 in our industry that too many of these decisions are
29 already made by those who are not personally familiar
30 with the conditions faced by a contractor at a given



1 time. The gradual reduction in the number of chartered
2 banks has had a tendency to restrict the scope for
3 alternative banking arrangements available to members
4 of the industry.

5 66. In summary, there is a strong body of opinion
6 in the industry that feels that the general availability
7 of credit in its various forms enables the establishment
8 or expansion of construction companies with altogether
9 insufficient personal investment and/or experience.

10 In practice, many firms are now not even using the line
11 of credit available to them at their bank. The further
12 extension of credit facilities at the banks, along the
13 suggested lines, only holds out considerable attraction
14 if it is accompanied by a reduction in the financing
15 costs and more selective approval of loans than are now
16 available and an avoidance of the other possible adverse
17 accompanying developments mentioned above. Most of
18 these matters are outside of the competence of the
19 Association and it is therefore hoped that the Royal
20 Commission will give this subject particular scrutiny
21 from the standpoint of the construction industry and
22 its clients.

23 67. Similarly, as long as there are adequate,
24 alternative sources of funds for residential mortgages,
25 it is not suggested that the bank rate should be in-
26 creased in order to encourage the chartered banks to
27 participate in this activity. However, it is anticipated
28 that the demand for housing will increase substantially.
29 If the other lending institutions and the Federal
30 Government are unable under such circumstances to meet



1 the demand for NHA loans satisfactorily, and if the
2 bank rate is not the same or greater than the current
3 market rate for residential mortgages, the Association
4 recommends that the matter be reviewed. The degree to
5 which bank funds are readily available for their usual
6 functions in other fields is also an important consider-
7 ation. Perhaps exceptions could be made to the current
8 bank rate in the case of loans secured by a mortgage,
9 whether it be industrial, commercial or residential in
10 nature.

11 DOWN PAYMENTS FOR HOUSING MORTGAGES

12 68. In addition to the interest rates applied to
13 residential mortgages, the down payment requirements
14 are also of great importance in determining whether or
15 not potential homeowners can finance the purchase of
16 a house and, in turn, mortgage funds become available
17 to the industry. In this regard it is noted that down
18 payment requirements for NHA loans are also more onerous
19 than is the case in the USA. A comparison of the size
20 of loans available in the two countries is as follows:

22 NHA, Canada

23 95% of first \$12,000

24 70% of rest

25 Maximum Loan \$14,900 (4 bedroom) 75% of the rest

22 FHA, United States

23 97% of first \$15,000

24 90% of next \$5,000

26 Maximum Loan \$25,000

27 69. Moreover, the purchase of older houses under
28 the FHA has long been a part of the US house financing
29 scene, whereas in Canada NHA mortgages are only available
30



1 on new units. The Association has advocated for a good
2 many years that NHA mortgages be made available for
3 existing homes as a further means of increasing op-
4 portunities for home ownership, should the demand for
5 mortgages for new homes not hold up or should the supply
6 of funds otherwise permit this new programme. The
7 greater balance between the supply and demand for new
8 homes and the increased relative availability of mort-
9 gage funds indicates that it is timely to give this
10 proposal serious consideration. This arrangement in
11 the United States enables trade-in transactions at
12 modest interest rates, whereas in Canada the purchase
13 of an existing house involves a large down payment or
14 reliance on expensive second or third mortgages. The
15 market for new housing depends to a significant extent
16 on the ability of present homeowners to sell their
17 houses and upgrade themselves without financing problems.
18 Mortgage re-financing assistance on the sale of older
19 houses will become increasingly important as the years
20 go by.

21 TRADE CREDIT

22 70. As has been mentioned, heavy use is made of
23 trade credit in the construction industry that is ex-
24 tended by manufacturers, wholesalers, equipment
25 distributors and materials suppliers. A good deal of
26 this trade credit is in turn made possible by the
27 extension of bank credit. A builders' supply house,
28 for example, may have a fair number of 90-day accounts
29 (or even longer) because he can obtain short-term
30



1 working capital from his bank in addition to the trade
2 credit he obtains from his sources of supply. Con-
3 struction operations are often extremely complex. A
4 typical major building project would have a general
5 contractor, thirty or more sub-contractors, half a
6 dozen sub-sub-contractors, fifty major suppliers and
7 literally thousands of different materials involved.
8 Most of their activities and transactions are based
9 extensively on credit.

10 71. The latter serves another important function
11 in that it facilitates a levelling out of the seasonal
12 fluctuations in construction work. For example, a
13 contractor may well be encouraged to do more of his work
14 in the winter months by the fact that payment on the
15 materials used can be deferred through the use of trade
16 credit. A more level volume of construction activity
17 provides production and storage economies to the
18 manufacturer and similar benefits down the line to the
19 contractor.

20 72. On the other hand, the generous extension of
21 trade credit during times of excess capacity and intense
22 competition in the industry poses serious problems.
23 Firms who pay their bills promptly contend that they
24 are, by so doing, helping to maintain in business their
25 tardy competitors who, in many cases, are the ones
26 submitting uneconomically low bids. Sub-contractors and
27 suppliers apparently give the same quotations and dis-
28 counts in most instances to practically all of their
29 customers. Moreover, in the event of a bankruptcy, a
30 large number of firms are affected.



1 73. The incidence of bankruptcies in the construction
2 industry is high. The Association noted in a brief to
3 the Minister of Justice earlier this year that from
4 1956 to 1961 Construction exceeded Manufacturing in
5 total number of bankruptcies each year, and that higher
6 total liabilities were recorded in 1960 and 1961 as
7 well. In 1960, for example, there were 604 construction
8 bankruptcies with a total of \$31 million in liabilities,
9 compared to 456 manufacturing bankruptcies with a total
10 of \$22.6 million in liabilities. A CCA survey indicated
11 that in addition to the basic remedies of better manage-
12 ment and better credit policies, amendments to our
13 legislation were desirable which were designed to
14 prevent fraudulent bankruptcies and the too easy re-
15 entry of bankrupts into business. The Association
16 recommends that:

- 17 (a) there be direct court action by the Crown
18 (rather than leaving prosecution appeals
19 to the trustee up to the creditors);
- 20 (b) every bankruptcy be required by law to
21 be investigated fully by a court-appointed
22 public accountant;
- 23 (c) all merchandise sold to a bankrupt within
24 four months of the bankruptcy go into a
25 common pool of any and all tangible assets
26 of the bankrupt, to be shared by all
27 creditors;
- 28 (d) the discharge of bankrupts be administered
29 more stringently.

30 It is believed that the above measures would do much to



Industry is high. The Association noted in a brief to the Minister of Justice earlier this year that from 1966 to 1981 Corporation expected manufacturing to total number of bankruptcies each year, and that higher total bankruptcies were recorded in 1966 and 1981 as well. In 1966, for example, there were 604 corporations bankruptcies with a total of \$21 million in liabilities, compared to 456 manufacturing bankruptcies with a total of \$21.6 million in liabilities. A CDA survey indicated that in addition to the basic measures of bankruptcy reform, and other credit policies, amendments to our legislation were desirable which were designed to prevent fraudulent bankruptcies and the too easy removal of bankrupts into business. The Association

- (a) that be direct court action by the Crown (rather than leaving prosecution appeals to the trustee up to the creditors);
- (b) every bankruptcy be reviewed by law to be investigated fully by a court-appointed public receiver;
- (c) all receivables sold to a bankrupt within four months of the bankruptcy go into a common pool of cash and all receivables of the bankrupt to be shared by all creditors;
- (d) the discharge of bankrupts be suspended where

in the future, that the above measures would be used to



1 reduce abnormal credit risks.

2
3 MECHANICS' LIENS

4 74. The risks connected to the payment of accounts
5 receivable in the construction industry were partly the
6 reason for the extension of mechanics' lien legis-
7 lation to cover the supply of materials as well as
8 workmen's wages. In several provinces "trust pro-
9 visions" have been incorporated in the lien legislation
10 whereby holdback moneys are deemed to be trust funds
11 to the appropriate sub-contractors and suppliers after
12 any statutory payments are deducted. The same principle
13 should apply to non-lienable projects.

14 75. The Association advocates the retention or
15 establishment of "trust provisions" in mechanics' lien
16 legislation whereby the banks obtain equal status with
17 other creditors in the event that a construction company
18 fails. It agrees, however, that there should be a
19 reasonable time limit to the life of the trust
20 provision.

21 76. The CCA similarly opposes waivers of liens.
22 A growing practice has been noted in the case of
23 large-scale commercial construction projects whereby
24 the sponsoring financial institution requires that lien
25 rights be waived as a condition of receiving the con-
26 struction contract. It is felt that contractors and
27 suppliers have their full share of business risks
28 without being asked to surrender the protection afforded
29 by lien laws.
30



1 FOREIGN PROJECT FINANCING

2 77. As has been pointed out in paragraph 55, the
3 facilities of Export Credits Insurance Corporation have
4 not as yet been of practicable use to Canadian contract-
5 ors. The underlying Act was amended at the request of
6 the Association to provide insurance coverage to the
7 export of construction services but this provision has
8 been inoperative. The Corporation requires full details
9 that are often not available to the contractor at the
10 time of early negotiation with a foreign client. More-
11 over, the prerequisite of a substantial Canadian labour
12 and/or materials component in the contract amount is
13 usually not possible. Similarly, the tie-in of the
14 export of Canadian capital goods with long-term loans
15 has to date resulted in a lack of applications. The
16 Association appreciates the desire of the Federal Govern-
17 ment to relate the operations of export credits insurance
18 and long-term loans to Canadian employment but submits
19 that the earning of foreign exchange is another worthy
20 objective in the national interest. The financing of
21 foreign construction projects is often a key factor in
22 the selection of a contractor. Other nations provide
23 facilities that enable their contractors to compete in
24 this field without employment or supply of materials
25 and equipment requirements. It is recommended that
26 similar arrangements be made available in Canada's
27 financial system to contractors wishing to work abroad.

28 SUMMARY OF RECOMMENDATIONS

29 1. The introduction of investment incentives in
30



1 the form of

2 (a) increased capital cost allowances
3 and/or investment allowances;

4 (b) corporation income tax cuts and/or
5 rebates based on increased capital
6 investment, production, etc.;

7 (c) reclassification of certain "capital"
8 costs as operating expenses;

9 (d) reduction of capital costs by the
10 exemption of construction items from
11 sales tax and faster write-offs for
12 construction equipment;

13 (e) extension of the incentive principle
14 to privately-financed wintertime con-
15 struction projects;

16 (f) extension of NHA provisions to include
17 mortgages on existing houses and loans
18 for municipal services in addition to
19 those now available for sewerage
20 systems.

21 2. Administration of monetary and fiscal policies
22 so as to avoid abrupt changes in the volume of
23 construction.

24 3. Application of credit controls to buyers of
25 construction services rather than to contractors.

26 4. Advance planning and, where necessary, joint
27 consultation by governments.

28 5. Adherence by public bodies to approved
29 tendering practices in order to effect economies in
30 their construction programmes.



(a) increased capital cost allowances

and/or investment allowances;

(b) corporation income tax cuts and/or

refunds based on increased capital

(c) reclassification of certain "capital"

costs as operating expenses;

(d) reduction of capital costs by the

exclusion of depreciation items from

sales tax and lower write-offs for

depreciation equipment;

(e) extension of the incentive principle

to privately-financed working capital

expansion projects;

(f) extension of WIA provisions to include

newspapers on existing houses and loans

for municipal services in addition to

those now available for business

3. Administration of monetary and fiscal policies

as to avoid abrupt changes in the volume of

4. Application of credit controls to buyers of

consumption services rather than to contractors

5. Advances planning and, where necessary, joint

coordination by governments.

6. Advances by public bodies to approved

lending practices in order to attract a greater



6. Study by the Royal Commission of the proposed relaxation of regulations restricting the lending or investment activities of banks, etc., with particular reference to the construction industry's operations.

7. Extension of Export Credits Insurance Corporation policies to cover the export of construction services without regard to Canadian employment component.

8. Expediting of approval of progress estimates, mortgage advances and final payments.

9. Amendment of Bankruptcy Act to deter fraudulent bankruptcies and related abnormal credit risks.

10. Retention or establishment of "trust provisions" in mechanics' lien legislation; application of holdback principle to non-lienable projects; and elimination of "waiver of lien" clauses.

- - - -



APPENDIX "A"

CANADIAN TAXATION INVESTMENT INCENTIVES

The Canadian Construction Association has long maintained that income tax incentives particularly in the form of accelerated depreciation are vital to industrial and commercial construction in Canada. Approximately one-third of all construction carried on in this country falls into this category.

The Federal Government and the business community have had considerable experience with special depreciation policies which have been brought into being to either stimulate or discourage capital expenditures. During World War II, accelerated write-offs were used to encourage industrial expansion. The same device was followed successfully for the transition period from war to peace. Despite the policy of confining the double depreciation concession to industrial investment of specified types, a total of \$1.4 billion was approved for expenditure from November 1944 to March 1947. In 1951 accelerated write-offs were again introduced for plant expansion of a specialized nature for defence production.

On the other hand, the Federal Government has not hesitated to use deferred depreciation to create the exactly opposite atmosphere for investment. Following its introduction as an anti-inflation measure in 1951, investment in the affected areas dropped appreciably and when the policy was discontinued at the end of 1952, a definite reversal took effect. A 28%



CANADIAN TAXATION INVESTMENT INCENTIVES

The Canadian Taxation Association has long maintained that income tax incentives payable in the form of accelerated depreciation are vital to industrial and commercial development in Canada. Approximately one-third of all corporations carried on in this country fall into this category.

The Federal Government and the business community have had considerable experience with special depreciation policies which have been brought into effect either as a result of disaster or capital expenditure during World War II, accelerated write-offs were used to encourage industrial expansion. The same device followed successfully for the transition period from peace to war. Despite the policy of confining the depreciation concession to industrial investment of specified types, a total of \$1.5 billion was approved for expenditure from November 1944 to March 1945. In 1951 accelerated write-offs were again introduced for plant expansion of a specified nature for defence production.

On the other hand, the Federal Government has not hesitated to use deferred depreciation to encourage the exactly opposite atmosphere for investment. In 1951, investment in the oil and gas fields was encouraged by a 50% deduction as an anti-inflation measure. In 1951, investment in the oil and gas fields was encouraged by a 50% deduction as an anti-inflation measure. In 1951, investment in the oil and gas fields was encouraged by a 50% deduction as an anti-inflation measure.



1 increase in these same areas was recorded in 1953. A
2 breakdown of the figures for both the accelerated and
3 deferred depreciation schemes show that many small and
4 medium-sized projects were affected. In summary, ac-
5 celerated depreciation or capital cost allowances have
6 been proven to be effective in encouraging capital in-
7 vestment. Similarly, inadequate write-offs discourage
8 this type of activity so essential for our nation's
9 continued development.

10 The Federal Government has recently put into
11 effect four different tax incentive schemes. Two of them
12 are in the nature of accelerated depreciation allowances
13 and the other two are direct tax allowances.

14 We would like to examine each of these plans
15 and assess their effectiveness as a stimulant in the
16 expansion of industrial construction.

17 1. Special Capital Cost Allowances New Products Program

18 This plan is commonly known as the double
19 depreciation allowance. Basically it allows firms who
20 are manufacturing products which are:

21 (a) of a type not ordinarily produced in
22 Canada

23 (b) of a type not ordinarily produced in a
24 surplus manpower area or locality

25 to double the depreciation allowance on capital goods
26 and equipment usually granted in the first depreciation
27 year of the asset.

28 The manufacturer may apply the full amount
29 of the special allowance in the first taxation year of
30

located in these areas was recorded in 1971. The
freshness of the figures for both the accelerated and
deferred depreciation studies show that they were
and deferred depreciation were similar. In 1971, the
accelerated depreciation on capital cost allowances was
has been proven to be effective in ensuring that the
accelerated depreciation is used in the same manner
this type of activity is essential for the state. It
is noted that the

The Federal Government has been in the
last four years the incentive program. The
one in the form of accelerated depreciation allowances
and the other in the form of capital allowances
the right to the same level of these
and several other efforts as a result of the
existence of the accelerated depreciation program.

1. The Federal Government has been in the
This plan is necessary for the state
depreciation allowance. But it is not one of the
The Federal Government has been in the
(a) of a type of depreciation program

(b) of a type of depreciation program
which has been in the
to provide the depreciation allowance on capital
and which is to be provided in the same manner
year of two years
at the same time as the depreciation allowance is provided



the asset or in either of the following two years.

Alternatively, the special allowance can be applied or apportioned in any amounts over these three years.

The Canadian Construction Association welcomed this move by the Federal Government as a step in the right direction. However, the results as outlined below have not been encouraging.

Period April 1961 - Sept. 28 1962

| | <u>Applications Received Value of Assets</u> | <u>Approved Assets</u> |
|----------------------------------|--|----------------------------|
| New to Canada | \$149.6 Million | \$ 79.2 Million |
| New to Surplus Manpower areas | <u>\$106.7 Million</u> | <u>\$105.6 Million</u> |
| | \$256.3 Million | \$184.8 Million |

This plan has obviously failed to provide the necessary incentives for industrial expansion in Canada. Although no figures are available, it is safe to assume that approximately 10% of the \$185 Million will be allocated for industrial construction. This would represent only about 4 - 5% of the total outlay for construction by manufacturers. Further, considering that much of this capital outlay would have been made in any case it is obvious that this plan leaves a lot to be desired as an effective investment incentive program.

2. Re-Equipment and Modernization Allowance

This plan is distinct from and broader in application than the double depreciation plan. As it does not have the "not made" criterion no permit is required from the Department of Trade & Commerce. This



General Building
First Floor

Page

one asset or in effect of the following two years.
 Alternatively, the special allowance can be applied to
 operations in any year over these three years.
 The Canadian Construction Association would
 like move for the Federal Government as a step in the
 right direction. However, the results are outstanding
 have not been decided.

Period April 1967 - Sept. 1967

| Value of Assets | | New to Canada Net to Canada |
|-----------------|-----------------|--------------------------------|
| Received | Value of Assets | |
| \$100.0 million | \$100.0 million | \$100.0 million |
| \$100.0 million | \$100.0 million | \$100.0 million |

This plan has already been agreed to provide
 necessary resources for industrial expansion in the
 financial no figures are available, it is safe to say
 that approximately 10% of the \$100 million will be
 allocated for industrial construction. This would
 represent only about 4% of the total outlay.
 Most much of this capital outlay would have been made
 in any case as it is obvious that this plan leaves a lot
 to be desired as an effort has been made to increase

...the plan is different from the program in
 application than the world development plan. As it
 does not have the "one rate" which is now in force
 ...the Government of India & Pakistan.



1 of course also means that no record is kept of the values
2 of the assets approved under this plan and therefore
3 no assessment can be made of its effectiveness to date.

4 Basically, it takes the form of a 50% in-
5 crease in the rate of capital cost allowance on any
6 capital expenditures which are in excess of the normal
7 or ordinary capital expenditures. This increased al-
8 lowance applied only for the year in which a new asset
9 is required.

10 For purposes of implementation ordinarily
11 capital expenditures are described as the aggregate of
12 the amount spent for depreciable property acquired in
13 the last taxation year and before June 21st, 1961 or
14 the average for the three years prior to June 21st
15 should this be the lower amount. If the taxpayer is
16 new in business there is no base for assessing ordinary
17 capital expenditures and therefore all eligible assets
18 acquired in the period June 21st, 1961 to March 31st,
19 1963 will qualify for additional amounts.

20 This plan although broader in scope than that
21 for double depreciation is still very restrictive in
22 nature. It would appear to discriminate against firms
23 who had enough faith in Canada to continue an even ex-
24 pansion program over the last few years. To realize
25 fully the benefits of accelerated depreciation as an
26 investment incentive the allowances must be applied on
27 a much broader base.

28 3. Production Incentive

29 This incentive which became effective April
30 1st, 1962, consists of a cancellation of 50% of the tax



1 on the first \$50,000 taxable income arising from in-
2 creased sales and 25% of the tax on the taxable income
3 arising from sales in excess of that figure.

4 4. Scientific Research Incentive

5 In order to encourage more research in Canada
6 the Federal Government announced that commencing in
7 April, 1962 taxpayers are permitted to deduct 150% of
8 their increased expenditures on scientific research for
9 industrial purposes when computing income for tax
10 purposes.

11 The effectiveness of these last two incentive
12 plans will not be known for some time. Honourable D.M.
13 Fleming estimated that the production incentive plan
14 will cost the Government some \$50 million in tax
15 revenue and the scientific research incentive plan,
16 another \$20 million. If these estimates are correct
17 there would appear to be a small amount of additional
18 capital available for industrial construction.

19 Conclusion

20 The level of business investment in 1961 was
21 \$1 billion below that of 1957. In order to recapture
22 the 20% reduction involved and bolster capital invest-
23 ment in Canada still further to provide adequately for
24 the nation's economic development, it is essential that
25 truly effective investment incentives be introduced to
26 achieve the desired and necessary results.

27 The Association has made a number of recom-
28 mendations in this field that are believed to be ap-
29 propriate for the solution of Canada's current problems.
30



1 In addition, special tax concessions, such as the three-
2 year period of freedom from taxation granted to mining
3 projects, could be made available to new businesses
4 established in designated areas or in industries for
5 which an expansion is particularly in the national
6 interest.

7 Special attention is also drawn to the fact
8 that Canadian income tax regulations concerning capital
9 cost allowances do not take into consideration the
10 fact that assets purchased to replace worn out equipment
11 or structures frequently are subject to inflationary
12 trends. Accordingly, companies often have to set aside
13 replacement reserves in addition to the depreciation
14 permitted for income tax purposes. In other words, it
15 is not only necessary to provide for the cost of assets
16 that have to be replaced but also for the increased
17 replacement costs that are due to price changes. The
18 U.K. investment allowances take this factor into
19 consideration and the new U.S. depreciation regulations
20 allow additional write-offs to companies who replace
21 their assets more frequently than the averages set forth
22 in the "guidelines" published by the Bureau of Internal
23 Revenue. A similar recognition of this inflationary
24 factor should be incorporated in the Canadian taxation
25 regulations.

26 Whatever incentive is provided it should be
27 expressed in terms that are sufficiently generous to
28 obtain fast and large-scale reaction in the fields of
29 industry and finance. The appointment of a Royal
30 Commission on Taxation is welcomed but it is sincerely

In addition, special tax concessions, such as the three-year period of freedom from taxation granted to minority shareholders, could be made available to new business enterprises established in designated areas or in industries for which an expansion is particularly in the national interest.

Special attention is also given to the fact that Canadian income tax regulations concerning capital cost allowances do not take into consideration the fact that assets purchased to replace worn out equipment or structures frequently are subject to inflationary trends. Accordingly, companies often have to pay a replacement reserve in addition to the depreciation permitted for income tax purposes. In other words, it is not only necessary to provide for the cost of assets that have to be replaced but also for the increased replacement costs due to price changes. The

consideration and the new W.T. depreciation regulations allow additional write-offs to companies who replace their assets more frequently than the average and to the "guidelines" published by the Bureau of Internal Revenue. A similar recognition of price inflationary trends should be incorporated in the Canadian tax legislation.

However, incentive is provided if should be expressed in terms that are sufficient to generate a certain level and percentage increase in the level of industry and financial. The proposal of a local



Nethercut & Young

Toronto, Ontario

A50

1 hoped that there will be no inclination on the part of
2 the Federal Government to await its recommendations
3 before introducing much needed investment incentives
4 and other measures that are required to increase sub-
5 stantially Canada's capital investment program and its
6 related employment opportunities.

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